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THE SOUTHWESTERN POLITICAL AND SOCIAL SCIENCE QUARTERLY

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FOREIGN INVESTMENTS AND THE ATTITUDE OF THE STATE DEPARTMENT*

BY DAVID Y. THOMAS

The University of Arkansas

I. GOVERNMENT LOANS

If I take the wings of the morning and fly to the uttermost parts of the earth, the American dollar is there; if I ascend up into Heaven, the American philanthropist has stored his treasures there, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal; if I make my bed in —, the rest is left to the reader's imagination.

Down to the outbreak of the Great War in 1914 the amount of American capital invested abroad totaled only \$2,625,000,000. In the course of the war, after we entered it, our government loaned to seven belligerents the sum of \$10,982,346,000; later, \$878,664,000 was advanced for relief and reconstruction, making a total of \$11,861,010,000 loaned by the United States. Several loans have been made by private concerns since the war; also, large sums have gone into industrial enterprises, either as loans or as direct investments. By the close of 1925 our private foreign investments in government loans and industrial enterprises totaled \$11,345,931,420, making a grand total of 23,206,941,420 American dollars that have gone abroad.¹

¹N. Y. Times, Jan. 26, 1925, 29:1; Feb. 28, 19:2; April 17, 1; July 11, 14:2.

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The really significant thing about this is the private investments, whether in government loans or in industry, and this paper will deal with them and not with debts due the United States. Such tremendous foreign investments, regardless of their probable influence on the balance of trade, cannot be devoid of interest to the State Department, as spokesman for our government. It will be interesting to know what has been, what is, and what probably will be its attitude toward loans to governments, especially when these governments default on payment; also, its attitude toward foreign industrial enterprises undertaken or financed by our citizens. In the following discussion, an effort will be made to distinguish between loans made to governments and capital put into industrial enterprises, whether as loans or as investments, but it will not always be possible to keep them entirely separate, because of their occasional close relationship. For some reasons it would be more satisfactory to give an account of the loans and investments and then to discuss the attitude of the State Department, but in several cases the connection of the State Department with the placing of the loans has been so close that it is practically impossible to make such a separation.

Two distinct and diametrically opposed charges have been brought against the State Department. The first is that it is indifferent to interests of the American financier adventuring abroad, and expects him to look out for himself—*caveat emptor*. Those who make this charge call attention to the way in which other countries, especially Great Britain, back up their foreign investors and make comparisons which they consider discreditable to our government. On the other hand, some who have no interest in foreign investments have charged that our government is prostituted to the promotion of economic imperialism. In a general way, both while Secretary of State and since leaving office, Mr. Charles Evans Hughes has proudly admitted the truth of the first charge in denying the truth of the second, and has sought to justify the policy of the State Department in assuming an attitude more or less indifferent to foreign investments. Speaking before the Chamber of Commerce of the State of New York in answer to the charge of economic imperialism, he said:

The truth is that investments in foreign loans is, and must be, a private affair. The business man in America knows that the government is not going to involve itself or promise the aid of military force to collect debts.²

Since Mr. Hughes left the State Department, President Coolidge is reported to have said:

American investors receive no assurance that their loans or agreements will be supported by American arms. It is not, and has not been, the policy of the government to collect debts by force of arms.

Now, it will be noticed that, although the charge is primarily against the State Department, both practically ignore this and simply deny the use of the War and Navy Departments to collect debts. In fact, they had little to say about the attitude of the State Department toward foreign investments other than loans, presumably to governments, though in the course of his speech Mr. Hughes did enter a blanket denial of economic imperialism. The use of force is not always necessary to promote financial interests, or even to collect debts. In Latin America the connection between the collection of debts and the placing of loans has been very close in more than one instance. What has been the record of the State Department in such matters?

The first debt-collecting episode in which our government took direct charge seems to have occurred in the West Indies. In 1904 the debt of Santo Domingo was \$32,000,000, of which about \$10,000,000 was claimed by Americans. In addition, American property interests there amounted to about \$20,000,000. Revolution after revolution had brought the island to financial chaos, and European creditors were calling on their governments to take charge and collect for them. To prevent this and uphold the Monroe Doctrine, the State Department, with the help of President Roosevelt and a few marines, made a treaty with Santo Domingo by which she turned over her finances to American administrators. In defense of the act, President Roosevelt said that the treaty "was concluded with Santo Domingo at Santo Domingo's earnest request, repeatedly pressed upon us." The fact is that President Morales made

²N. Y. Times, April 29, 1925, 23:1.

this "request" only after he had been urged to do so and saw that there was no way to avoid it. The ink of ratification on the treaty was not very old when a loan of \$16,000,000 was floated with American bankers to take up the European bonds and to carry on public works. In 1918 there was another loan of \$4,025,600, and in 1921 another of \$2,000,000. The nominal rate of interest was 8 per cent, but at least one of the loans was juggled in such a way as to make it average 14 per cent. Now the United States could easily borrow money then at 4 per cent or less, yet our State Department assured our bankers that it would not leave them in the lurch and forced Santo Domingo to pay them 14 per cent,³ all for the defense of the Monroe Doctrine.

Very much the same story could be told of Haiti. This country was heavily in debt to foreigners for sums borrowed by revolutionary governments at from 12 to 33 per cent, though some of the older debts drew only 5 per cent. In 1910 Secretary Knox practically forced the National City Bank to share in loans being sought by Haiti in Germany and France. In 1915 Secretary Lansing decided that the United States should take charge there to keep out the Germans, whose fleet was then bottled up at home. The National City Bank of Haiti had on deposit \$500,000 in gold, which the Haitian Government had placed there as a pledge for the reform of the currency. The bankers now became alarmed lest President Zamor should get possession of this money and squander it to sustain his government and, at their request, the U.S.S. *Machias* was sent down there and the marines helped to carry this \$500,000 on board. A subordinate of the State Department declared that he was responsible for the issuance of this order, taking advantage of the absence of Secretary Bryan, who had refused to issue it, but Mr. Bryan never ordered the return of the money. It was taken to New York and deposited with the National City Bank, which kept it for two or three years, paying only 2 per cent interest on it. In 1917 the Americans in charge of the government of Haiti attempted to float a loan of \$30,000,000 on outrageous terms, but the protests against it were so vigorous that the bankers refused to touch it because of its oppressive character. Yet when the Foreign Policy Association and numerous

³Thomas, *One Hundred Years of the Monroe Doctrine*, 220-239.

prominent individuals later protested to Secretary Hughes against the policy of the State Department in Haiti he defended it and refused to make any change. Later a loan of \$16,000,000, bearing 6 per cent, was offered at 96.5 to take up French bonds bearing 5 per cent. Evidently this was done for political reasons, though the bankers profited by it.⁴

Central America has long been a field of peculiar interest to American capitalists and bankers. In Costa Rica Mr. Minor C. Keith, president of the United Fruit Company, began placing loans with the bankers as far back as 1895, apparently without any particular aid from the State Department. In 1903-1905 Guatemala made contracts with an American syndicate by which the holders of her bonds were allowed to appeal to the United States in case the contract was violated. Later, when an effort was being made for a unified loan to take up the British bonds, the British protested and upheld their right to participate, but Secretary Knox expressed his "surprise" at the attitude of the Foreign Office in backing them up and curtly intimated that this was an American preserve on which there should be no poaching. After a few revolutions, Secretary Knox recognized the Orellano government, and when his agent came to the United States to negotiate a loan he first went to Washington and called at the State Department. Honduras was in a similar plight financially, and our State Department drew up a treaty for a protectorate similar to that over Santo Domingo, but it was rejected by the Senate (1911).

The story of Nicaragua's troubles is long and somewhat complicated, but the essential features can be stated in a few words. An American mining company operating there became dissatisfied with the government and is said to have financed a revolution. The other side made the mistake of executing two American engineers, and this gave the mining company's revolution a decided advantage in securing the support of the State Department, and the company's agent, Diaz, was elected President. Thomas C. Dawson, our Minister in Panama, came up and held a conference with Diaz, the result of which was a promise that the State Department would use its good offices to secure a loan, the said loan to be guaranteed by a pledge of the customs under an American receivership. At the same time,

⁴*Ibid.*, 263-5, 270.

a contract was made with two American bankers, somewhat against their will, for a loan not exceeding \$15,000,000, conditioned upon the ratification of the treaty.

Marines were already on the ground, "at the invitation of the Nicaraguan government," as the defenders of the State Department claim. Perhaps it was a little easier to get this request than it was in Santo Domingo, since President Diaz was the creature of the American mining company. The Nicaraguan government, surrounded and sustained by American marines, ratified the treaty, but the American Senate, having no marines at its door, refused to ratify, in spite of three appeals from President Taft and of a speech from Secretary Knox on the Monroe Doctrine, in which he started with Hiero, King of Syracuse, to illustrate the obligations of a state to its neighbors. Later the Secretary visited Nicaragua for additional first-hand information, but the Senate remained obdurate. But the bankers, under pressure from the State Department, finally agreed to let the Nicaraguans have \$1,500,000, later increased to \$2,153,000, when secured by the customs and an additional pledge of 51 per cent of the stock of the National Railway and of the National Bank.

Here, also, the defenders of the State Department "point with pride" to the fact that every time it was proposed to remove the marines the government of Nicaragua objected. No wonder, for, when questioned about conditions there, Mr. Walter Brundy Cole declared that the government which made the above agreement would last just so long as it was sustained by American marines, and that the President would leave on the car which carried the last of the marines. In 1916 the Senate was finally persuaded to ratify, though with many misgivings, a treaty paying Nicaragua \$3,000,000 for a canal concession and certain other rights, *the money* to be used to pay off the bankers.⁵ The marines were finally withdrawn in 1925, but only after the organization of a constabulary officered by Americans. However, this did not prevent a revolution. By the opening of 1926 Chamorro was in control. As the treaty for the canal concession had been put through under his administration, he probably expected recognition from the United States, but the State Department refused to budge from the

⁵*Ibid.*, 281-294.

policy established by President Wilson in refusing to recognize governments established by force and warned American financiers that any loans to his government would be made at their own risk.⁶

The latest adventure of this kind in Central America was a loan of \$6,000,000 to Salvador. The agreement provides that 70 per cent of the customs (the highest yet exacted) shall be paid to the representatives of the bondholders. In this case no formal treaty was made, but Secretary Hughes agreed, in case of controversy, to "use his good offices in referring such disputes to the Chief Justice of the Supreme Court," and, in case of default in payment, "to assist in the selection of a collector of customs." If such a collector is ever appointed, he is to send his reports to the State Department. While the agreement made by Mr. Hughes has no more legal or moral effect than, say, the signature of Mr. Wilson to the League of Nations, yet the bankers felt assured by it and, when offering the bonds for sale, said: "The bondholders are entitled to, and unquestionably will, receive the full protection of their own Government. It is simply not thinkable that, after a Federal Judge has decided any question or dispute between the bondholders and the Salvador government, the United States Government should not take the necessary steps to sustain such a decision."

Then there is faraway Bolivia, where the hardest bargain of all has been driven for a loan of \$24,000,000. This is guaranteed, not only by the customs duties, but also by the stock in the government bank, a government railroad, and by internal revenue. Should this prove insufficient, the bankers may call for an increase.⁷ The State Department does not seem to have had any hand in this, either directly or indirectly, but if the bankers should get into trouble with Bolivia over a simple thing like increasing the taxes to keep up the service on the bonds, they certainly would expect the State Department to take an active interest in the matter, as it has in other somewhat similar matters. It might not call on the marines to help collect this debt, but the force of diplomatic pressure is sometimes very effective, as Mexico can testify.

For ten revolutionary years and more Mexico defaulted on her bonds. In our diplomatic correspondence with her, there

⁶*United States Daily*, March 4, 1926, 13:3-4.

⁷*The Nation*, 114:182.

seems to have been no direct reference to these bonds on which the international bankers were trying to get service, but our State Department steadily refused to recognize the Obregon government until it signed a treaty agreeing to meet its "international obligations." This seems to have been done primarily to protect American property rights in Mexico, but the payment of debts is also considered an "international obligation," and while the State Department was taking this attitude the international bankers were negotiating with Obregon and finally got him to sign an agreement to resume service on the bonds. Included in these bonds was \$6,000,000 issued by Huerta, whom our State Department had refused to recognize, but the bankers refused to allow Obregon to exclude them as illegal, and our State Department remained silent on this. Soon after this agreement was signed the Obregon government was recognized, though this was not the chief reason for the recognition.⁸

Loans to the Cuban revolutionists ante-date the war with Spain. As they were to aid insurgents against a power with which we were at peace, the State Department necessarily frowned upon them. It is not worth while to trace Cuban finance from the time of independence, but a few recent happenings of significance should be noticed. In the summer of 1922, when the Cuban government was considering a loan to straighten out its finances, most of the Havana papers charged that American financiers were attempting "to force on Cuba another \$15,000,000 obligation in order to bring the country completely under their control, open the way to fiscal intervention, and place the island in the same category as Haiti, Santo Domingo, Nicaragua, and Panama." In the Cuban Congress there was strong opposition to the loan as "another link in the golden chain binding Cuba to the chariot of the United States." Major General E. H. Crowder was sent down there as the personal representative of President Harding to urge the loan and certain reforms—modification of the civil service law, improvement of the system of accounting, and investigation of the floating debt, and making the removal of judges easier. Under his influence the Cuban Congress passed all these measures and authorized a loan of \$50,000,000. A Cuban

⁸Thomas, *op. cit.*, 327ff.

writer remarked that the authority exercised by General Crowder resembled "that which is exercised in other countries by functionaries called 'residents.'" As a reward for his labors, General Crowder was appointed the first Ambassador to Cuba.⁹

It is very doubtful if the bankers in any way instigated the movement which led to this loan, but once the loan was made they naturally wanted to look after their interests. Early in 1925 the House of Representatives of the Cuban Congress passed a measure providing for payment of half of the overdue bonuses to government employes and one-fourth of the floating debt within six months. While the measure was pending in the Senate the House of Morgan, speaking for the bankers, lodged a protest, through the American embassy, against the bill on the ground that it would depreciate the value of Cuban bonds in the hands of Americans. A few days later announcement was made in Havana that the bill, which would have entailed an expenditure of \$14,000,000, had been dropped and that service on the bonds would continue.

Now it is not meant by the foregoing to imply that in all cases the bankers were eager to make loans in Latin America and urging the State Department to pave the way for them. In some cases they probably were glad to snap up splendid bargains which had the backing of the State Department, but in others they seem to have been dragged in somewhat unwillingly by the State Department; for example, in Nicaragua and, in some cases, in Haiti. These were political moves on the part of the State Department, in which the bankers were not particularly desirous of being involved. They were not undertaken primarily for the purpose of collecting debts for American bankers. That the bankers profited by them was a mere by-product.

The excuse given by President Roosevelt for starting the move was to checkmate the European powers, whose bankers were calling on them to force the Latin-American countries to pay up, thus preventing intervention and preserving the Monroe Doctrine. However, this argument for the necessity of intervention to save the Monroe Doctrine is very weak. A mere wave of the hand would have been enough to keep other

⁹*Current Hist. Mag.*, XVII, 175; *Inter-America*, VI, 32; *N. Y. Times*, Aug. 20, 1922, 16:1, Jan. 30, 1925, 28:2.

Nations out, as President Roosevelt himself had already demonstrated when he told Germany to get out of Venezuela.

Another argument which President Roosevelt seems to have been the first to use was the moral mandate idea. If, said he, we would not allow other governments to intervene in behalf of their nationals who were suffering financial losses due to "chronic wrongdoings," then "we must ourselves take seasonable and appropriate action"; that is, set the Latin-American houses in order and keep them straight.¹⁰ In this, as in many other pronunciamientos, he has had many followers.

Now this moral mandate idea can be disposed of with a single comparison. Certain states of the Union have repudiated bonds amounting to about \$60,000,000. If the interest be added, the amount probably would be three times that much. The larger part of this debt was contracted by some of the Southern States when they were under carpet-bag rule, which was forced upon them by the United States government, and by Florida when she was a territory and hence under national tutelage.¹¹ As these bonds were sold abroad, they became an "international obligation." For them the United States is under a greater moral obligation than it is for those issued by the Latin-American countries. Now it must seem queer to the European holders of these bonds that our Government should be so very solicitous about the financial honor of Latin-American countries, which, though they have failed to pay, have not repudiated their bonds, while it has never done a thing to force the payment of the bonds by the states just mentioned, or shown any disposition to assume the responsibility itself. What if the Latin-American countries should take charge of the customs duties in these states and allocate them for the payment of these bonds to prevent European powers from interfering, all in defense of a Monroe Doctrine of their own, as we did in Santo Domingo and Haiti? This certainly would furnish amusement for the Olympians!

It is also a somewhat serious matter. The more our statesmen speak about the "sacredness of contracts," and the more our government presses for a settlement of the European

¹⁰*Messages and Papers of Presidents*, XV, 6923, 6950, 6996f.

¹¹Scott, *Repudiation of State Debts*, 31ff; *Cur. Hist. Mag.*, 23:475-83; *South Atlantic Quarterly*, 9:251-266.

debts, the more the debtor Nations, especially Great Britain, where these repudiated bonds are held, will note and speak of the inconsistency of such actions. It is no great satisfaction to them to say that these were obligations of states for which the national government was in no way responsible. They note that statesmen from the repudiating States are calling for European settlements, and they also see the moral responsibility which rests upon the national government for at least a part of the bonds.

The practice of establishing customs receiverships has been extended to Africa under conditions somewhat similar and for reasons somewhat different, for no appeal could be made to the Monroe Doctrine there. The negro republic of Liberia was established in the first half of the nineteenth century as a haven of refuge for slaves set free in the United States. The government of Liberia has always had a hard time of it, partly from incompetence, partly because of the aggressions of Great Britain and France. After having made several appeals to the United States, a commission was sent over in 1908 to beg for help. The English were already in charge of the customs. After hearing a report by a special commission sent over to investigate, the State Department sought to establish a receivership, in which France, Great Britain, Germany, and the United States should be interested, and to float a loan with the bankers of the four countries. The quartette receivership did not work well, and when the Great War came on the State Department took advantage of the opportunity to push the other representatives out. Both Secretary Lansing and Secretary Hughes besought Congress to extend to Liberia a loan of \$5,000,000 to take up the bonds held by the bankers, now very much depreciated, and carry on certain improvements, but Congress refused to sanction the post-war loan and it fell through. The receivership has been kept up, however, and presumably the bankers are satisfied with the service on their bonds.¹²

The Chinese loans deserve special notice. Down to the time of her war with Japan, China managed to get along without foreign loans, except for occasional short-time notes, in spite of the restrictions on her customs duties. The Japanese and

¹²Thomas, *op. cit.*, 165-175.

the Boxer indemnities forced her to borrow on long-term notes, the funds being secured from the bankers of Germany, Great Britain, France, and Russia. Then came the development of railways, which were financed by foreign bankers, chiefly by the money lenders of the first three countries just named. But these railway concessions carried with them certain "control" features which had a bearing on the "open door" policy. In 1909 President Taft urged the American bankers to press claims for a share in the loans for railways and other enterprises. In 1911 the four powers loaned £10,000,000 to help straighten out the Chinese currency. By this time the bankers of Russia and Japan had recovered sufficiently from their war depression to seek admission. Up to this time the railway concessions and the "control" that went with them had been individual. Now an attempt to internationalize the "control" led to the Six-Power Consortium. In 1912 China asked for a loan of £60,000,000 to reorganize the demoralized administrative service, and President Taft requested the American bankers to participate. Long-drawn-out negotiations finally led to an agreement which gave to the bankers, among other things, the right to approve the purposes for which the loan should be used and the setting apart of the salt taxes for service on the loan, the tax to be administered by the existing maritime customs service or by special officials under foreign direction. President Yuan Shik Kai denounced the terms as robbing China of her sovereignty, and the National Assembly held up approval. Meantime, President Taft was succeeded by President Wilson, who shared the views of the Chinese President, and, a few days after inauguration, he announced that the United States would assume no responsibility in connection with the loan. The American bankers then withdrew, and a few days later a loan of £25,000,000 was shared by the bankers of the Five Powers.

All this time the attitude of China toward the leading countries was one of suspicion and distrust. The loans had been virtually forced on her. Her good-will toward the United States remained unshaken. In 1916 she borrowed \$5,000,000 as the first installment of a \$30,000,000 loan of American bankers. This was secured by the wine and tobacco taxes and was to be used to promote industries, but the bankers were not to dictate its management. In 1920 the United States proposed

to France, Great Britain and Japan the establishment of the consortium to substitute international coöperation of a friendly sort for international competition in making administrative loans and loans for industrial developments, such as railways. Nominally, the "spheres of influence" were given up at the Washington conference, but the control measures still exist in the railway and other industrial concessions. These things, together with the commercial and industrial activity of foreigners, account for the outbreak of anti-foreign feeling in 1925. American manufacturers seeking new markets, traders wishing to hold and develop the commercial connections with the Orient which came to them in the Great War, and missionaries, all naturally want to overcome this feeling and hold the good opinion of the Chinese which was ours before the outbreak. The State Department may reasonably be expected to help in this, but the task does not even belong primarily to it.¹³

In the Russo-Japanese War, Secretary Hay announced that the making of loans was not a violation of neutrality. In 1914, Secretary Bryan announced the opposite view and President Wilson did about all he could to discourage such loans short of absolute prohibition. Numerous loans were made, however, the most notable being the Anglo-French loan of 1915 for \$500,000,000, but these loans took the form of extension of credits for goods to be purchased in this country, and the State Department raised no objection. After we entered the war, they were assumed by the United States. Immediately after the war a few loans were made to former belligerents, some of which were for refunding, notably the French loans of 1920 and 1921. In the last two years the loans have grown to large proportions. Among the Government loans of 1924 were the following: Japan, \$150,000,000; France, \$100,000,000; Germany, \$110,000,000; Canada, \$90,000,000; Belgium, \$80,000,000; Argentina, \$80,000,000; The Netherlands, \$40,000,000; Switzerland, \$30,000,000; Sweden, \$30,000,000; Norway, \$25,000,000. Of the total Government loans, \$989,058,000, only \$663,069,500 was new, the rest being used for refunding. This year marked the entrance of provinces and municipalities into the money market.¹⁴

¹³Ogg, *National Progress*, 315-7; *Annals of the Academy*, Nov., 1925, 131ff; *N. Y. Times*, Sept. 26, 1925, 8:1-2.

¹⁴*N. Y. Times*, Jan. 26, 1925, 28:1.

The following table indicates how widely scattered the loans were:

17 Governments	\$783,015,000
7 Provinces	43,752,000
17 Municipalities	62,291,000
<hr/>	
Total	\$989,058,000
Less for refunding	325,989,500
<hr/>	
Net total	\$663,069,500

The placing of some of these loans, that of France in particular, aroused criticism, both in and out of Congress, but they were made with the tacit approval of the administration. Referring to such loans in a speech delivered in New York, President Coolidge said that the exportation of such capital as was not required for domestic use, and which the people felt could be spared with safety, should be encouraged, as in the end it would promote commerce. But it will be noticed that the lenders should be their own judges as to the safety of the loans, and no hint was given that help might be expected in collecting.¹⁵

In the course of the year 1925 the government borrowing continued on a large scale, but large sums went into productive industry. The leading borrowers among the governments were: Italy, \$100,000,000; Argentina, \$99,700,000; Australia, \$75,000,000; Canada, \$70,000,000; Belgium, \$50,000,000; Poland, \$35,000,000; Ontario, \$46,000,000; Denmark, \$30,000,000; Czecho-Slovakia, \$25,000,000. A somewhat unusual loan was one of \$1,500,000 to the Vatican. Provinces and municipalities also continued to borrow. Santa Fé, a province of Argentina, secured a loan of \$10,188,000; and Sao Paulo, a province of Brazil, sought one of \$30,000,000, but Government officials and bankers discouraged a loan for the valorization of coffee on the ground that it would increase the price of coffee to American consumers, and it had to be withdrawn from the American market. After this, however, the province secured \$15,000,000 for railway construction.

Ontario, the province of Upper Austria, and Antioquia, Colombia, all borrowed in America. The total of such loans for 1925 amounted to \$942,157,000, excluding \$13,290,000 to the territories of the United States, to which should be added

¹⁵N. Y. Times, Feb. 25, 1925, 3:1-2; July 4, 1:1; Nov. 20, 1:8, 2:5.

\$443,000,000 credits, making a total of \$1,385,151,000 of government loans, if the credits should be used.¹⁰

The purpose of the national loans was to enable the governments to meet obligations, to stabilize the currency, fund floating debts, and, in a few cases, to invest directly in industry or loan to industrial enterprises. For example, the Polish loan of \$35,000,000 was to be turned over to manufacturing, agricultural and railway interests on long-term loans. Argentina wished to promote the packing industries, and Santa Fé to build roads, bridges and school-houses and to fund her floating debt. Numerous European cities have borrowed to establish or extend electric light and power plants and to construct public buildings.

As for the securities offered on these loans, in the case of the great powers like Japan, Italy, France and Germany there is none except the bonds of the government and, in the case of Germany, the operation of the Dawes plan. Czecho-Slovakia gave as security a first lien on the sugar and alcohol taxes and a second lien on the customs and on the net profits of the tobacco monopoly. The Santa Fé loan was guaranteed by the pledging of certain taxes, but no pledge was given for the Quebec and Ontario loans. Considerable sums were loaned to German municipalities and, to secure these, mortgages were given on municipal property or certain revenues were pledged, or both. The same sort of security was given in other countries, for example in Austria and Hungary. The economic condition is reflected to some extent in the guarantee and the rate of interest. In many cases in Europe some sort of guarantee was necessary to secure the loan, and in a few cases the rate of interest runs to more than 9 per cent. Quebec offered no guarantee, and sold so that the rate of interest was only 4.7 per cent.

In a few instances private ventures secured government guarantees, such as the Rhine-Maine-Danube Corporation for building canals, which is secured by Germany and Bavaria.

¹⁰N. Y. Times, Nov. 20, 1925, 1:8:2:5; Feb. 28, 1926, 19:2.

COTTON CROP REPORTS
OF THE
UNITED STATES DEPARTMENT OF AGRICULTURE

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The Department of Agriculture has issued reports on the cotton crop of the United States practically without interruption since 1866. For many years reports on cotton were limited to an estimate of the acreage planted in the spring, to monthly reports during the growing season on the condition of the crop, an annual report in December on the acreage harvested, the yield per acre, and the total production in bales. In 1915 the Department began to forecast the crop on the basis of the acreage planted and the currently expressed condition. At the present time, forecasts of production are made as of June 25 and twice per month thereafter until November 14. The estimate of production, based upon harvested acreage and yield per acre, is made as of December 1. Cotton is produced in eighteen of the forty-eight States of the Union, and the reports of the Department refer to the crop in all of these States. The published reports of the Department in practically all cases carry details for fifteen of these States. All of the office records and computations are made upon the State basis.

THE ORGANIZATION OF THE CROP REPORTING SERVICE

The work of gathering and compiling information on cotton is performed by the Division of Crop and Livestock Estimates of the Bureau of Agricultural Economics. Cotton reports are cleared through the Crop Reporting Board, which was established in July, 1905, by an order of the Secretary of Agriculture. As constituted at present, the Crop Reporting Board is composed of the statistician in charge of the Division, who is also chairman of the Board; three other statisticians of the central office, and three or more agricultural statisticians called

in from the field offices of the Division. The Crop Reporting Board and the Division are also charged with the duty of compiling and issuing reports on all other crops and livestock. Cotton, however, is handled to some extent as a separate project, and the field representatives on the Crop Reporting Board for cotton are, of course, always from the cotton-producing States.

The Division has a field office in each of the cotton States, usually located either at the State Capitol or in one of the principal cities of the State. In charge of each office is an agricultural statistician. The agricultural statistician is a well-trained, experienced man, familiar with local conditions in his State. He has a small office force and secures information by mail from a large number of farmers and others connected with the cotton industry within his State. In addition, he spends from ten days to two weeks of each month in the field, studying conditions and personally developing his contacts with farmers, dealers, and others who are interested in the agriculture of the State.

The principal original sources of information on cotton, as for all other crops, are the voluntary crop reporters, who number thousands and who serve the Department entirely without compensation other than to receive the crop reports, a few bulletins, and the Department Yearbook. Many of these crop reporters have served for many years. There are about 85,000 reporters in all, to whom requests for information on cotton are sent at one time or another during the year. In all there are eight different lists of these reporters, five reporting to Washington and three to the field representative or the State statistician. The lists reporting to Washington include 700 county reporters, 7,000 township reporters, each reporting for a township; 5,000 special cotton reporters, who are bankers, cotton factors, etc., each reporting for his own locality; 12,000 individual farm reporters, each reporting for his own farm; and about 16,000 cotton ginner, each reporting for his locality.

The State statisticians secure information on cotton from about 10,000 field aids, each reporting for a township or smaller area; 5,000 special cotton aids, bankers, cotton factors, etc., each reporting for his locality; and about 25,000 individual farm aids, each reporting for his own farm.

Reports from each of these various groups are tabulated and summarized separately. The Crop Reporting Board makes its estimates after a consideration of their reports and information from all other sources.

The Crop Reporting Board meets on dates selected and announced about the first of each year. Under terms of the Swank-Harris Act, twelve regular reports are issued on cotton. Under regulation of the Secretary of Agriculture, the Crop Reporting Board so conducts the calculation, tabulation and issuance of its reports that there can be no possible way for information to be given out by the Board, or any member of the Board, or employee of the Division, prior to the scheduled hour or minute of the report. In the calculation of the returns to the Washington office prior to the day of the Board meeting, the information from all sources is kept in non-assembled form in the safe in the office of the Secretary of Agriculture. When the Board meets on the morning of the crop report day, this material is brought, sealed, from the Secretary's office by the chairman and the secretary of the Board. The doors of the Crop Reporting Board rooms are then locked, windows sealed, guards placed at the doors, and all means of communication with the outside, such as telephones, office buzzers and the like, disconnected. Except to admit the Secretary shortly before the time of issuance of the report, the door is kept locked until the minute when the report is released to the press. A penalty of ten years in prison, or a fine of \$10,000, or both, is provided by law for the giving out of information by anyone connected with the work prior to the time set for its release. All persons who are members of the Crop Reporting Board, or employees of the Division working on the crop report, are also prohibited by the same law from speculating on crops or any products of the soil.

PRODUCTION FORECASTS AND ESTIMATES

Many people are vitally interested in the size of the cotton crops, *i.e.*, the number of bales of lint cotton produced or to be produced. The December estimate of cotton produced is called by the Department the "estimate" of production. The number of bales which are indicated by the current status of the growing crop is called a production "forecast." Production esti-

mates, then, refer to the size of the crop when it has actually been produced. Production forecasts refer to the indicated size as measured while it is still growing and subject to the various influences which may reduce or enlarge it. The forecasts of production are issued because of the need of information concerning the progress of the crop at as early a date as possible. The need for this information is felt by the spinner as well as by the cotton producer. The size of the crop varies with the acreage and with the yield per acre. The determination of each will be discussed separately.

ACREAGE ESTIMATES

The determination of the number of acres planted or harvested of a given crop is one of the most difficult tasks which the statisticians of the Department have to undertake. Experience over many years has demonstrated that no one method is infallible, but that a combination of methods, one serving as a check upon the other, does give results which are reasonably accurate. Some of these methods give an indication of absolute acreage; others give an indication of changes in acreage from the preceding year or from a base year. The various methods used by the Department will be discussed.

The primary basis of the acreage estimates of the Department is the acreage count or enumeration made by the Bureau of the Census of the Department of Commerce every ten years. In the case of cotton, an indirect check upon acreage is available each year in the annual enumeration of the number of bales of cotton ginned. This enumeration is made by the Bureau of the Census. The indirect use to which this enumeration is put will be discussed later under the heading of the final acreage revision.

The estimate of acreage in cotton is made about the first of July each year and relates to the acreage of cotton in cultivation on June 25. Any acreage abandoned prior to that time is not included in the estimate. The published estimate of abandonment refers to the acreage which was in cultivation on June 25, and which was subsequently abandoned. By "abandonment" is meant the acreage planted to cotton, but from which no cotton whatever was picked. The first method of estimating acreage which I will discuss is based upon an in-

quiry to crop reporters, in which they are asked to report their judgment on the following question: "What is the present acreage of cotton in your locality compared with the acreage a year ago (representing acreage a year ago by 100 per cent)?" For many years prior to about 1915 this method was the Department's main reliance in estimating acreage. The method, however, was never very satisfactory. It was quite apparent to all those concerned with the making of estimates that there was a strong disinclination on the part of the reporters to report over 100 per cent. Consequently, allowance had to be made for this weakness in the report. This question is still asked and allowance is made for the weakness, but, generally speaking, indications from this method are given very little weight at the present time.

The second method was inaugurated during the first decade of the present century. This was a companion question to the first, which read as follows: "What is the present acreage in cultivation compared to the usual acreage in your locality (representing usual acreage by 100 per cent)?" Returns to this question also tended to fall below 100. However, when the current returns were compared with the returns to the same question in the preceding year as a base, an indication of the true change in area was secured. Both returns were compared with the same measuring stick, the rather indefinite "usual acreage."

For example, should the returns made last year have been 95 per cent, and those made this year 93 per cent, the indication would be that the actual acreage was $93/95$, or 98 per cent of last year's acreage. This method was a definite improvement upon the first method mentioned, and is still quite useful where acreages are rather stable. However, in the States which are making rapid growth in crop area, the method fails. Where considerable shifts in acreage occur from one year to the next, the method has not been successful in indicating the full magnitude of the change.

The third inquiry in which the crop reporter is asked to give his judgment as to the acreages in his locality reads as follows: "Of every 100 acres in crops in your locality, how many acres are in corn, wheat, cotton, etc.?" Tabulation of the returns to this inquiry gives the weighted number of acres per 100 of all crops in each of the main crops. Just as in the second

method, comparison is made with returns to a similar inquiry in the previous year. For example, if 49 acres of every 100 acres in all crops were reported in cotton this year, and 50 acres last year, the indication would be for an acreage 98 per cent as large as last year. Indications derived from this inquiry are, perhaps, the most useful of those secured from the so-called "judgment inquiries."

A fourth indication is secured from sample data. The voluntary crop reporters on all lists are asked to report the acreage of cotton on their own farms. This method was first begun in 1914, and successful results from the sample data can only be secured when a large number of individual reports are utilized. The use of this form of questionnaire, therefore, entails considerable additional expense in building up lists, in tabulating and summarizing the returns. It is only in recent years that the Division has had facilities for this increased work.

If in a given State 20,000 acres of cotton were reported on the sample farms last year as against 19,600 on the same farms this year, the indication would be that acreage this year was 98 per cent as great as last year. The Department now has records on over 2 per cent of the entire cotton acreage in the United States for each year since 1914. When the year-to-year relatives (series of percentages of change from previous year) are compared with the year-to-year relatives of the final estimates, which are based indirectly on the Census ginning figures, it is noted that there is a rather constant difference between the two series. In other words, there appears to be a tendency for reporters in the current reports to understate the acreage in cultivation this year or to overstate the acreage in cultivation last year. This over-statement may be due to some extent to conservatism in reporting acreage this year. The most probable explanation, however, is that to a large extent farmers reporting do not make changes in acreage in the same ratio as farmers as a whole. This divergence of sample returns from farms as a whole is noted for other crops as well as for cotton wherever there is a check available. In deriving an indication of change in acreage from this material, the Crop Reporting Board must, of course, make allowance for this statistical bias.

The fifth method of estimating acreage or change in acreage is known as the field count method. This consists of counting

year after year the actual fields planted with cotton over identical routes in successive years. This work is done by the agricultural statistician in the State and has given very satisfactory results in a number of States where it has been carried on for five or six years. If, for instance, in a thousand miles of travel, the statistician counts 980 fields of cotton this year over the same route on which he counted 1000 fields last year, the indication would point to an acreage 98 per cent as large as last year. A refinement of this method is known as the pole count, where the number of telephone poles opposite fields of cotton and other crops is counted each year. The absence of poles and the irregularity in the size and shape of fields in some of the Southern States has brought forth a further refinement in the form of a multiple road meter attached to an automobile. By means of this instrument it is possible to measure the actual frontage in feet of each crop along the designated route year after year. After a number of years' records with this instrument have been secured, the Department will be in a position to gauge the relative merit of this method.

The sixth indication of acreage change in cotton is based upon records of fertilizer sales in the Southern States. In nearly all of these States each bag of commercial fertilizer sold must have attached to it a tag purchased from the State Department of Agriculture. This record is secured by the agricultural statistician in each State about the middle of June. On the June inquiry, estimates are secured from crop reporters as to the amount of fertilizer purchased which was used on cotton, and the percentage of cotton fields which received fertilizer. This data, used in connection with the record of fertilizer tag sales, gives another indication of the acreage of cotton planted this year as compared with last year.

The seventh indication of acreage change is obtained from a study of the number of acres of cotton per plow, which in the old cotton belt means one negro laborer, one mile and one plow. Information is secured both on a judgment and on a sample data method. In a few States this has proved very helpful.

An eighth method of indicated change in acreage is secured from a study of the changes in acreages of crops other than cotton. In the strictly cotton States, the entire acreage of cotton varies from one-third to one-half of the acreage in all crops,

and a change in the acreage of other crops gives an indication of the complimentary change in cotton acreage.

After consideration of these eight indications, the Crop Reporting Board arrives at an estimate of the acreage of cotton in cultivation on June 25. This acreage is used as the base to which the forecast yield per acre is applied in computing the production forecasts during the growing season of the crop. The harvested, or picked, acreage of cotton, by which is meant the acreage in cultivation on June 25, less subsequent abandonment, is estimated for use in the production estimate early in December.

The Department repeats all its acreage inquiries during the autumn. Sample data on individual farms are secured on a general inquiry, which covers not only cotton, but also all other crops. This inquiry is made in September, when practically all of the abandonment has been determined. Because the inquiry relates not only to cotton, but to all crops, the basic material can be used in several ways: First, as an indication of acreage change from the previous year; second, as a ratio which cotton bears to all other crops; or, in other words, to the total crop acreage of the State. In connection with the December report, fertilizer records are available for the entire season and acreage counts made during the summer can be used as a further check.

A ninth indication of acreage is secured by subtracting from acreage in cultivation on June 25 the acreage which has subsequently been abandoned. As previously stated, this is determined by an inquiry of the crop reporters.

COTTON PRODUCTION FORECASTS BASED ON CONDITION

The ideal forecast of the cotton crop outturn would involve a true prediction *before* planting of the yield per acre in each region of the cotton belt. Such a prediction, coupled with a forecast of world demand for cotton at a reasonable price, would make for a control of production, to the material benefit of everyone concerned. It would help producers (once they trusted in the forecast) in regions where low yields were predicted to restrict acreage, and in regions where high yields were in prospect, to increase only to a point where prices would hold up to a comfortable margin above production costs.

On the completion of planting, a statement of acreage times predicted yield would give the size of the crop—everyone would know its size, speculation would be eliminated, and the crop would sell on the basis of demand with a fixed supply. Of course, even under such circumstances, complications might arise—a large number of farmers might decide to get a larger slice and increase yields by generous application of fertilizer, more intensive cultivation, etc., but in general the outturn would be changed but little.

Lacking such a forecast, the next approach to perfection of prediction would be a true forecast of final outturn at planting or at some early stage of growth of the crop. Given certain weather conditions to a specified date, say August 1, and a three-month forecast of weather for the coming three months, a certain yield may be anticipated and a true forecast obtained early enough in the season to eliminate much of the uncertainty with respect to the number of bales which will be produced. Note that such a true forecast calls for a fore-knowledge of the weather after a specified date, or at least a knowledge that weather and other influences thereafter will not enhance nor diminish the outturn. If, for example, it is demonstrated that weather conditions to August 1 have a dominating influence upon final yields, future influences of the weather may be discounted or even ignored.

Not having had such data in the past, our reports upon crops prior to time of harvest have naturally turned toward reports upon crop progress—reports upon what advance the crop has made to certain dates, its general appearance and promise of fruiting, the content of soil moisture to withstand possible droughts, the relative freedom from insect damage or insect presence, and the other factors which give indication of large or small yield as reflected by physical factors.

This state of progress, at a given date, we call condition. It has significance as indicating the ability of the plant to withstand future unfavorable conditions or profit by future favorable conditions. With each successive day nearer to harvest, the menace of disaster becomes less and also the opportunity for bumper yields depreciates. The recording of progress or condition, therefore, as the season advances, tells us something of value—marks a succession of milestones passed upon the road to harvest.

Does a condition report tell us anything as to the probable outturn, or may a high condition on a certain date be as likely to be associated with a low yield as with a high one? Correlation studies between condition and yield indicate that high conditions are more often associated with high yields than with low yields, and correlation coefficients for later dates are higher than for earlier ones.

In other words, having passed a given milestone indicating a condition above-average, the chances are better than even that the crop will yield a harvest above the average.

This is the basis of crop indications (forecast is really an inaccurate word) put forth by this Bureau. We do not predict the final yield, we do not predict future influences upon the crop—we merely state that with the progress the crop has made to this date, and with average influences hereafter, a yield of so much may be expected. Our present method has merit, as demonstrated by the fact that in practically every year in which "forecasts" have been made the forecast was closer to the final yield than was the average yield.

FORECAST YIELD PER ACRE

The expected or forecast yield per acre of cotton which is applied to the acreage to secure the forecast in bales is based upon the currently reported condition of the crop. That is, the forecast yield as an interpretation of the currently reported condition expressed as a percentage of the normal or full condition.

On each date crop reporters are asked to estimate the condition of the crop on that date as compared with the normal condition on that date. This normal condition, which the crop reporter takes as 100 per cent, may be defined as a state of growth and progress of the crop which would result in full yields per acre should conditions from the given date until harvest be average. A normal crop is, therefore, a full crop, and the normal condition one which, from the current state of growth and progress, promises a full crop. Objection is often made to the use of this "full crop" as a basis, since it is an indefinite quantity of cotton per acre. An analysis, however, based upon comparison of reported condition and final outturn, indicates that the crop reporter has a well-defined judgment of

what the normal or full crop represents. This is evidenced by the fact that a normal crop, computed from reports on condition and yield, represents a rather stable number of pounds of cotton per acre. The significant fact to be noted is that crop reporters of the Department seem to understand the term and are able to make comparisons with it.

The expected yield per acre indicated by a given condition on a certain date is interpreted on the basis of the relation in past years of condition on that same date to the final yield per acre. Over a series of years a given condition has been associated one year with a certain yield per acre, and in another with a somewhat different yield per acre. This is due to the fact that in the first year subsequent weather and other influences may have been more favorable than average and caused an improvement in the crop before harvest. In another year, these influences may have been less favorable than average and caused a decline. In determining the most probable yield per acre indicated by currently reported condition, the Department must assume that subsequent influences will be average. As a matter of fact, these influences are seldom average. Consequently, the realized yield is generally somewhat above or somewhat below the forecast. In the long run, the yield should be above about as often as it is below.

THE DETERMINATION OF PARS

In its interpretation of yield per acre from the currently reported condition, the Department uses a method of pars. The par is based back upon the reported condition and the reported yield per acre of past years. On a given date it represents the mathematical expression of the reporter's concept of the full crop; in other words, a 100 per cent condition. That is to say, the par for a given date is the yield that might be expected if the present condition of the crop is such as to cause the reporter to report it at 100 per cent.

The condition and yield of cotton in the State of Texas from 1909 to 1923, inclusive, are shown in the following table:

TABLE I

Texas Cotton, Conditions and Yield, 1909-1923

YEAR—	CONDITION						YIELD
	May 25 Pct.	June 25 Pct.	July 25 Pct.	Aug. 25 Pct.	Sept. 25 Pct.	Oct. 25 Pct.	
1909	78	79	70	59	52	—	132
1910	83	84	82	69	63	—	149
1911	88	85	86	68	71	—	192
1912	86	89	84	76	75	—	206
1913	84	86	81	64	63	—	157
1914	65	74	71	79	70	—	183
1915	79	82	76	67	57	—	149
1916	78	81	78	66	63	—	157
1917	74	72	68	55	53	—	135
1918	82	84	61	43	44	—	110
1919	76	69	67	61	52	46	125
1920	60	71	74	67	61	62	160
1921	71	72	62	42	38	38	96
1922	61	72	72	59	52	56	130
1923	77	77	71	55	56	57	146

The par which is used in forecasting yield per acre is derived after a study of the past records. For example, if we take the year 1923, condition on the 25th of each month, beginning with May, was as follows: May, 77; June, 77; July, 71; August, 55; September, 56; October, 57. The yield per acre was 146 pounds. That is to say, the yield of 146 pounds is associated on the various dates with the various reported condition figures. From this one year's record, with a different condition reported for each date, we would have a different par for each date. If the reported condition of 77 per cent on May 25 was accompanied by a yield of 146 pounds, then a reported condition of 100 per cent might be expected to have been accompanied by a yield of $146/77$, or 190 pounds. This is the computed par for May 25. The computed par for October 25, similarly derived, would be $146/57$, or 256 pounds. That is to say, if the condition on October 25 had been reported at 100, a yield of 256 pounds per acre might have been expected. The following table has been included to show the pars so computed from the data represented in the first table:

TABLE II

*Texas Cotton, Computed Pars, 1909-1923**Equivalent in Pounds per Acre of 100 Per Cent Condition*

	May 25	June 25	July 25	Aug.25	Sept.25	Oct.25
	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.	Lbs.
1909.....	169	167	189	224	254	---
1910.....	180	177	182	216	237	---
1911.....	218	226	223	282	270	---
1912.....	240	231	245	271	275	---
1913.....	187	183	194	245	249	---
1914.....	282	247	258	232	261	---
1915.....	189	182	196	222	261	---
1916.....	201	194	201	238	249	---
1917.....	182	188	199	245	255	---
1918.....	134	131	180	256	250	---
1919.....	164	181	187	205	240	272
1920.....	267	225	216	239	262	258
1921.....	135	133	155	229	253	253
1922.....	213	181	181	220	250	232
1923.....	190	190	206	265	261	256

It will at once be seen that the higher the reported condition, the lower will be the par. It will also be noticed that, generally speaking, the condition figure declines as the season progresses and that, consequently, the par increases. The pars, based upon the relation of final yield to condition on May 25, vary from the low figure of 135 pounds in 1921 to a high figure of 282 pounds in 1914. This range of 147 pounds, when divided by two, or $73\frac{1}{2}$ pounds, gives an indication of the extent to which yield per acre for a State may vary from the yield forecast from condition early in the season. The par for May 25 used by the Department has been in the neighborhood of 195 pounds during the years for which forecasts have been made. In the low year (1921), weather and other influences upon the crop after May 25 were less favorable than the average, but in the high year of 1914 they were more favorable than the average. As a result, the forecast yield per acre in 1921 of 138 pounds (71 per cent of the par of 195 pounds) was 42 pounds higher than the final yield per acre (96 pounds). While the Department made no forecast by States in 1914, the par for that date would have been in the neighborhood of 210 pounds. Application of the condition figure of 65 per cent to

this par would have given a forecast yield per acre of 136 pounds, which was 47 pounds less than the final yield per acre of 183 pounds. It will be noted that the range in the computed pars for the later months is much smaller. This is, of course, to be expected, since fewer things may happen to reduce or enhance the crop between each successive date and maturity. The range for September 25, for example, when the crop is practically made, was from 237 pounds in 1910 to 275 pounds in 1912. The probable variation between the yield per acre forecast from September 25 condition and the final yield per acre is, therefore, very much smaller. The relatively small variation in the computed pars for September 25 illustrates the point previously made that crop correspondents do know what is meant by the term "normal," that they are able to make comparisons with it, and that they have in mind a rather stable concept of the "full crop."

Crop pars as finally adopted for each year are derived from a study of the computed pars for the individual years as shown above, and also after a consideration of the three-year, five-year, and ten-year moving averages of these pars. The trends toward a higher or lower concept of normal are indicated by these moving averages. Such a series of five-year moving averages is shown in

TABLE III

Texas Cotton, Five-Year Average, 1912-1923

Equivalent in Pounds per Acre of 100 Per Cent Condition

	May 25	June 25	July 25	Aug. 25	Sept. 25	Oct. 25
1912-1916	218	205	217	239	257	—
1913-1917	206	197	207	234	253	—
1914-1918	197	188	206	238	255	—
1915-1919	173	175	192	233	250	—
1916-1920	190	184	197	237	251	—
1917-1921	176	172	187	235	252	—
1918-1922	183	170	184	230	251	—
1919-1923	194	182	189	232	253	254

It will be noted from this table that in the earlier months there is a distinct trend toward a lower concept of normal on the part of the crop correspondents, due, no doubt, to a considerable extent, to the fact that after some years' experience

under boll-weevil conditions they have been able to make allowance for probable boll-weevil damage earlier in the season. From the September 25 pars, it will readily be seen that there is very little change in the concept of a full yield per acre judged by the condition of the crop at harvest time. The pars adopted for use in the State of Texas in 1923 were as follows: May 25, 190; June 25, 182; July 25, 195; August 25, 230; and September 25, 253. It will be noted that the par increases as the season advances. This explains why it is possible for a decline in condition to be accompanied at times by an increase in the forecast of yield per acre. Such a circumstance results whenever the decline in condition is proportionately less than the increase in par.

There is a close relationship between decline in condition and an increase in abandonment of acreage. That is to say, when the condition of the crop becomes very low, the percentage of the area from which no cotton is picked becomes larger. Because of this fact, when the condition in a given month is reported very low, the Crop Reporting Board must make allowance for the probable area which will not be picked. Inasmuch as some abandonment is reported in every year, it must, of course, be understood that allowance must always be made in the par for an average abandonment.

ACCURACY OF FORECASTS

The Department has issued forecasts of cotton production each year during the growing season since 1915. During that period the crop has varied in size from 7,950,000 bales to 16,086,000 bales. The July forecasts, based upon the condition as of June 25, have averaged 4 per cent about the final outturn. The real criterion of the accuracy of forecasts, however, is the number of times in which the Department has been above as compared with the number of times when it has been below. In the long run, the forecasts should be above about as often as they are below. The June 25 and the July forecasts have been above seven times and below four times. Forecasts during August have been above five times and below six times. Forecasts during September have been above four times and below seven times. This would indicate that during the eleven years for which forecasts have been made, weather and other

influences subsequent to June 25 and prior to August 1 have been less favorable than the average; during August they have been about average, and after September 1 above the average. This decline in condition has been attributable to a considerable extent to the spread of the boll weevil. This is particularly true since during this period the weevil has spread into the southeastern States, where the normally heavy rainfall during the growing season has been favorable to the depredations of the boll weevil far beyond what could have been foreseen. Even so, the forecasts from condition were, as a whole, closer to the final yield than the ten- or five-year averages of the preceding years.

FORECASTING FROM INDEPENDENT DATA

Let me emphasize again the fact that the Department forecasts of yield per acre are an interpretation of the observed condition of the cotton crop at one-month intervals during the growing season, and that the forecast is made upon the basis of subsequent average influences upon the crop until harvest. It would seem that the next logical step in the forecasting of yield per acre should be based upon forecasting the extent to which future conditions will depart from average, and measuring the influences which have operated upon the crop, but whose effects are not apparent to the crop reporter. This involves long-time forecasts of weather damage and in the case of cotton, of boll-weevil damage. The studies of some meteorologists have indicated that there is some hope of making such long-time forecasts of weather changes. The Bureau of Entomology is making technical studies along this line. The Division of Crop and Livestock Estimates itself is securing some data on boll-weevil emergence and similar factors through its reporters, which will give some indications of probable future boll-weevil damage. With the present important role played by the boll weevil in the reduction of the cotton yields, the Department is quite hopeful that some progress in this direction may soon be made. Another logical step (in the actual forecasting of yield per acre) is the forecasting upon the basis of independent factors separate and apart from the observed condition. Some progress has been made in this direction for limited areas, and studies are being continued along this line by the Department. For example, it has apparently been demonstrated for one State that yield may be accurately forecast from June, July and August weather conditions. A complication which is becoming increasingly important since the boll weevil invaded the Southern States is the fact that the effect of the weather upon the crop yield is complicated by the effect of the weather upon the boll weevil. Any attempt to forecast yield per acre of cotton from independent data must be made in the light of this interaction.

PRODUCTION ESTIMATES

Up to this point I have been dealing with the determination of acreage and with the determination of the probable or expected yield per acre, which serve as a base for the production forecasts. A production estimate is made early in December of each year. At that time the cotton crop has been harvested over the major portion of the cotton belt and nearly all has been ginned. On December 1 various lists of reporters, with the exception of individual farm lists, are asked to give their best judgment on average yield of lint cotton per acre for their locality. The individual farm reporters are asked to report the average yield per acre of lint cotton on their own farms. The returns from each list are summarized separately from this material. From these data, the Crop Reporting Board makes its estimate of the average yield per acre for each State. As previously mentioned, the reporters at the same time are asked to estimate the percentage of acreage which was in cultivation on June 25, and which was subsequently abandoned. This information is not secured on a sample data basis from individual farms. Such an inquiry would seem inaccurate on a sample basis, since the individuals suffering from the highest abandonment fail entirely to report. As a result, abandonment on individual farms does not measure the fluctuations in abandonment for an entire area.

In the estimate of production made in December, the Board secures five separate indications of the total size of the crop, each of which serves as a check upon the other four. The first indication is secured by applying to the estimated acreage harvested the average yield per acre. The second indication is the application of this same yield per acre to the reported acreage in cultivation on June 25 minus abandonment. The third estimate is based upon the report of cotton ginned prior to December 1 as reported by the Bureau of the Census, converted to 500-pound gross weight bales and divided by the estimated percentages of the entire crop ginned to December 1. This estimate of the percentage ginned to December 1 is based upon reports from the ginners' lists to an inquiry, in which they are asked to give their judgment for their locality of the percentage of cotton ginned to December 1. Such an inquiry has been

carried out since 1912 and a study has been made of the relative accuracy of these estimates by comparison with the ginning returns. In this study, as in so many other studies where a check is available, a statistical bias is indicated, for which allowance is made in computing the size of the crop from this indication. The fourth estimate is based upon the study of the relative exhaustion of cotton as indicated by the ginning returns. It has been found that there is a rather significant relationship between the quantity of cotton ginned for the period, November 14 to December 1, and the amount which will be ginned during the balance of the season. An estimate of the quantity of cotton still remaining to be ginned is deduced from this study and added to the Census report on bales ginned to December 1, converted to 500-pound gross weight bales.

The fifth independently computed estimate of the size of the crop in bales is the estimate made independently from similar sources by the field statistician in each State. Ordinarily, there is a very close agreement between the independent estimates from the five sources. The Crop Reporting Board, after a full consideration of this information, adopts the figure which represents the best interpretation of the Board as to the probable size of the crop.

The December estimates have been above the final ginnings three times, below the final ginnings six times, and the same twice (less than one-half of 1 per cent). The largest difference was the 5 per cent over-estimate in 1921. On an average, the estimates for the eleven years have been 1.6 per cent below the final ginnings. With the gradual development of improved methods of estimating acreage and forecasting yield per acre and total production, the Department has every confidence that the differences between the forecasts and production estimates and the final ginnings can be materially reduced.

INTENTIONS TO PLANT

In 1923 the Department of Agriculture inaugurated the much-discussed report on farmers' intentions to plant. This report covered all the major crops, including cotton. The purpose of the "intention to plant report" is to assist the farmer in making his final decision with regard to the acreage which

he will plant to each crop. The Department feels that if the individual farmer has information as to what farmers as a whole are planning to do with respect to the acreage which will be planted to each crop, he will be in a position to adjust his acreage before it is too late and thus prevent over-planting or under-planting of certain crops. The purpose of the "intention to plant report" was not fully understood and, as a result, considerable opposition to it was made, particularly to the intentions report on cotton. Because of legislation before Congress, specifically prohibiting these reports on cotton, no compilation was made in the spring of 1924. Doubtless, however, you will be interested in knowing how this report is compiled. This report is based upon a schedule sent to all lists of voluntary crop reporters, in which they are asked to give for their own farms the acreage which they harvested of the various crops last year and the acreage which they intend to plant in the coming year. The report itself represents a change in acreage based upon these returns.

CONCLUSION

This paper is an attempt to provide a full discussion of the methods used in making the estimates and forecasts of cotton production. There has been a feeling, which is only gradually being displaced, that there is something mysterious about our methods and that we are somewhat loathe to submit them to the scrutiny of farmers, business men and statisticians generally. The Department has no desire to clothe its methods with secrecy. As a matter of fact, it is realized that once people are fully conversant with the methods which are used they will be in a position to make valuable and helpful suggestions which would tend toward greater accuracy in these reports. This is the end which is being sought. If, therefore, there are any phases of the work of the estimating of the cotton crop which have not been fully covered, the Department would feel it a great privilege to have an opportunity of providing further information.

THE GARY DINNER SYSTEM: AN EXPERIMENT IN COOPERATIVE PRICE STABILIZATION

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While the crisis of 1907 first manifested itself in Wall Street circles, it became evident at once that unless effective measures were taken to prevent its spread the demoralization in the security markets would extend to the various industries, and especially to the iron and steel business, the barometer of trade and commerce.¹ Immediately after the first shock of the panic had passed, the officers and directors of the United States Steel Corporation were importuned to exert their influence in stabilizing prices,² even to use the funds of the company to assist a certain firm that found itself too heavily loaded with unsaleable securities. Passing over the purchase of the Tennessee Coal and Iron Company, we may center our attention upon the efforts undertaken by Mr. Gary, chairman of the board of directors of the Steel Corporation, to prevent a general demoralization of prices in the iron and steel industry and to devise means by which this end might be achieved. While a stickler for legal methods,³ Mr. Gary was a thorough believer in co-operating with his competitors⁴ as well as with his customers. It is not strange, therefore, that when confronted with the dangers of a runaway steel market, at a time when the various iron and steel associations had been virtually abandoned, Mr.

¹"Following Judge Gary, brief remarks were made by J. Pierpont Morgan. He referred to the fact that he had always been taught in a business way to regard the iron and steel industry as an accurate barometer to general business conditions, and likewise believed that no other power would ever exert as important a bearing on the general prosperity of America." *Iron Trade Review*, Feb. 6, 1908.

²*Record, United States v. The United States Steel Corporation*, Vol. XII, p. 4887.

³"I knew that Judge Gary was a great stickler for the legal proprieties in everything with which he was connected." Testimony of W. M. Temple, *ibid.*, Vol. XV, pp. 6035-6.

⁴Testimony of Mr. Gary, *ibid.*, Vol. XII, p. 4886.

Gary should have invited the leading representatives of the industry to a dinner⁵ to consider the situation and take such measures as might be deemed necessary and proper to prevent the injurious effects that normally result from a demoralized market.⁶

The first of the so-called Gary dinners was held in New York on November 20, 1907. At this meeting fifty-one guests were present, representing approximately 90 per cent of the iron and steel trade of the country.⁷ The object of this meeting was, in the words of its founder, "to prevent the demoralization of business, to maintain as far as practicable the stability of business and to prevent, if I could, not by agreement, but by exhortation, the wide and sudden fluctuations of prices which would be injurious to everyone interested in the business of the iron and steel manufacturers."⁸

After Mr. Gary's address "depicting conditions" and "proposing coöperation," the guests expressed their opinion individually in regard to the market; whether or not prices were fair and reasonable; and generally in regard to the financial outlook; especially as to whether or not and to what extent the condition of the money market, of finance, trade, and industry,

⁵"The recent coöperation of banks and trust companies throughout the country was a service of the highest value to the people and if such coöperation is desirable in the financial world, it is equally necessary in the industrial world." From editorial on the first Gary dinner, *Iron Trade Review*, Nov. 28, 1907.

⁶The *Iron Trade Review*, in its issue of November 21, 1907, in the week immediately preceding the first Gary dinner, stated: "Market conditions may be compared to a sick patient. Financial specialists are working overtime in their efforts to rally the patient, but stimulants so far applied have been ineffective. Nothing can be gained by a discussion of prices, as the patient has no pulse, respiration is slow, circulation sluggish, and there is no apparent appetite."

⁷For a list of the guests, see *Iron Trade Review*, Nov. 28, 1907, p. 861.

⁸Testimony of Mr. Gary, *Record, op. cit.*, Vol. XII, p. 4889.

was likely to affect the demand for the products of the iron and steel industry.⁹

Whether deliberately so planned or not, the Gary dinner system, as it actually developed, proceeded along two lines quite distinct from each other in method, although having a common purpose—that of maintaining or stabilizing prices in the face of a badly demoralized market.

The general meetings, the dinners, the luncheons, etc., which were followed by an address by Mr. Gary and a round-table discussion by the leading spirits in the industry, were designed to bring the men into “friendly contact,” to dispel that feeling of suspicion and distrust by which the industry was formerly characterized in order “to prevent destructive warfare—bitter, fierce, tricky, destructive warfare,”¹⁰ and thus to insure “fair panies engaged in the manufacture of steel and iron.”¹¹ Confidence, coöperation, and common decency were to take the place of distrust, destructive competition, and the old-time trickery of the trade. By these means stable prices could be maintained,¹² the “law of the survival of the fittest” could be rendered inoperative,¹³ and the element of uncertainty, “the prime factor in causing disorganization,”¹⁴ could be removed.

But the leaders of the steel industry were far too experienced in the ways of the business world to rest their case on

⁹“I invited these gentlemen to this first dinner for the purpose of referring to the general financial or business situation, and the statements that had been made by customers and bankers and so forth, and for the purpose of thoroughly establishing if possible a friendly feeling amongst the steel workers and of inducing if possible the manufacturers to state frankly and freely what they were doing, how much business they were doing, what prices they were charging, how much wages they were paying their men, and often times, what their methods were, and, in fact, furnishing frankly one to the other all information concerning their business. *Record, op. cit.*, Vol. XII, p. 4889.

¹⁰Statement of Mr. Gary, *ibid.*, Vol. XII, p. 4889.

and decent” treatment of their competitors by all of the com-

¹¹*Ibid.*, pp. 4888, 4892, 4893.

¹²Official statement following the second Gary dinner. *Ibid.*, Vol. IV, p. 1477.

¹³*Ibid.*, pp. 1477-8.

¹⁴*Iron Trade Review*, report on the second Gary dinner. Also *Record, op. cit.*, Vol. IV, p. 1475.

exhortations, appeals to sentiment, and the friendly interchange of views. Coöperation, although founded upon mutual confidence and fostered by exhortations and sentimental appeals, is, nevertheless, dependent upon an effective organization; and, in recognition of this principle, Mr. Gary and his guests, after the discussion regarding conditions and prices, finally voted to appoint a general committee of five, with power to add to their number from time to time, and, as it appeared later, clothed with authority to select a series of sub-committees to represent the important branches of the iron and steel industry.¹⁵

Within approximately a month the sub-committees were announced in the trade papers,¹⁶ and immediately thereafter began their work. While the general committee was intended to represent the general interests of the iron and steel industry, the sub-committees were designed to carry the general policies formulated at the first Gary dinner into operation. Originally eight sub-committees were appointed, representing the following specific lines of products: ore and pig iron, rails, and billets, structural materials, plates, steel bars, pipes and tubular goods, sheets and plates, wire products. As the situation developed, the personnel of the several committees was slightly changed and an entirely new committee added, representing billets and steel bars.¹⁷

The sub-committees as finally constituted thus not only represented the important products of the industry but, what is

¹⁵The general committee as originally constituted consisted of E. H. Gary, chairman, W. E. Corey, Powell Stackhouse, E. C. Felton, and Willis L. King. Mr. Gary and Mr. Corey represented the United States Steel Corporation. Mr. Stackhouse was president of the Cambria Steel Company; Mr. Felton, president of the Pennsylvania Steel Company; Mr. King, vice-president of Jones & Laughlin. Very soon afterward Mr. C. M. Schwab, president of the Bethlehem Steel Company, and Mr. Edward Bailey, president of the Central Iron and Steel Company, were added. See *Record, op. cit.*, Vol. IX, pp. 3745-3750 for complete list.

¹⁶*Iron Trade Review*, Dec. 26, 1907.

¹⁷In notifying members of the sub-committees of their appointment, Mr. Gary stated: "In the appointment of sub-committees the members of the general committee have used their best judgment in distributing responsibility amongst the different lines of business, confining membership to as small a number as seems practicable." *Record, op. cit.*, Vol. IV, p. 3747.

of greater significance in this connection, were, considered individually, the virtual successors of the so-called statistical associations, and through them of the pools and combinations of the period beginning, generally speaking, in the early nineties and ending with the withdrawal of the subsidiaries of the Steel Corporation from the various associations late in 1904. There was, however, one important difference that should not be overlooked. Never before had there existed any central association or general committee representing the entire industry. The Gary dinner system thus not only resuscitated the partially decadent associations, but infused new life and vigor into their activities by furnishing new ideals of coöperative action and a central organ to coördinate the work and stimulate the several sub-committees whenever the occasion demanded.

The sub-committees met at irregular intervals, determined partly by the conditions in the branch of the industry which each represented and partly by the zeal of the individual chairmen. Some of the committees met as often as once a month; others seem to have met only three or four times each year.¹⁸ Sometimes the meetings were participated in by the members of the committee only, at other times a considerable delegation from companies not represented on the committee would be present and take part in the discussions.¹⁹ At all of the committee meetings the procedure was fairly uniform in character. The chairman, generally a representative of one of the larger companies and always a participant in the Gary dinners, would lead the discussion, calling attention to the general condition of the market, to the proceedings at the latest Gary dinner, if one had been held in the interim, and to the activity in the industry as represented by the various mills.²⁰

¹⁸Campbell, *Record*, *op. cit.*, Vol. V, pp. 1838, 1841; Westfall, Vol. XIX, p. 7893; Benner, Vol. VI, p. 2488.

¹⁹Lukens and Westfall state that usually fifteen to twenty-five men were present at meetings of the steel committee. *Ibid.*, Vol. XIX, pp. 7804, 7891. Crawford states that usually all the steel and tin plate manufacturers were present. Vol. V, p. 1775.

²⁰For description of the procedure see Lukens, *ibid.*, Vol. XIX, p. 7819; Campbell, Vol. V, p. 1835; Daves, Vol. II, pp. 560-5; Follansbee, Vol. V, pp. 1804-13.

At more general discussions, each person present would usually give full information in regard to the orders on his books and the prices he had been receiving.²¹ All of this discussion was preliminary to the main object of the meeting, namely, an "understanding" on the prices for the immediate future.²² Generally the larger companies, for example the Illinois, the Carnegie, the American Sheet and Tin Plate Company, would make a first announcement as to future prices and express the hope that the others would adopt the same general policy.²³ Sometimes an understanding would be reached with alacrity; more often it would appear, from the testimony of participants, that differences of opinion would arise, some holding out for the maintenance of prices with a falling market or for a greater increase or a deeper cut than the majority thought wise. Notwithstanding such differences of opinion, the committees seem always to have continued the session until an understanding was reached acceptable for the time to the majority.²⁴ Immediately after the adjournment of the com-

²¹Worth, *ibid.*, Vol. III, p. 1329; Daves, Vol. II, p. 560; Campbell, Vol. V, p. 1834; Follansbee, Vol. V, p. 1807; Lukens, Vol. XIX, p. 7809; Crawford, Vol. V, p. 1777; Benner, Vol. II, p. 2489; Westfall, Vol. XIX, p. 7892; Corey, Vol. VIII, p. 3003.

²²"You were asked about whether you had any agreement, and you said, 'No.' What did you mean by agreement in the sense that you answered that question?"

"I meant a formal understanding, either written or expressed by word."

"I will ask you whether or not you left with the general understanding, each relying on the other, that the prices announced would be maintained?"

"Yes, sir; yes, sir." Testimony of S. A. Benner, of the Carnegie Company, *ibid.*, Vol. VI, p. 2506.

²³Benner, *ibid.*, Vol. VI, p. 2489; Worth, Vol. III, pp. 1329 *et seq.*; Campbell, Vol. V, p. 1936.

²⁴"But you say you did discuss prices and most of you reached a common price, and it was understood that that would be announced."

"Yes, sir."

"State what position those who did not agree in opinion as to what

mittee meetings an announcement of the action taken would be made and, generally speaking, such announcement would appear in the trade journals.²⁵

The understandings, thus reached after the facts in regard to business conditions and to the business of each of the companies in the different lines had been ascertained and distributed so that each company could keep thoroughly informed as to what the others were doing, although not agreements in the ordinary sense in which that word is used, were generally considered to be morally binding upon all parties to them.²⁶ The moral obligation, however, was assumed subject to conditions. First, any party to the understanding was expected to give due notice to all the other parties before departing from

the price would be announced, and as to what their action would be, if any, as to selling at those prices."

"They were willing to go with the majority."

Testimony of Mr. Follansbee, *ibid.*, Vol. V, p. 1807.

"State whether or not before they left there was any difference as to what each one said he was going to charge, or whether it would be the same."

"It was always unanimously agreed, or the statement was unanimous on the part of all that they would quote a certain price." Testimony of Mr. Crawford, *ibid.*, Vol. V, p. 1777.

²⁵"After the meeting of the steel manufacturers last night, Judge Gary issued the following statement: 'The representatives of the leading steel manufacturing companies have been in session during the day. It is understood that the price of iron ore has been, or soon will be, reduced 50 cents per ton base. Each one of the steel manufacturers expressed the opinion that there should be a readjustment in the prices of the respective commodities, as follows: Billets, from \$28 per ton to \$25, Pittsburg; sheet bars, from \$29 per ton to \$27, Pittsburg; plates, from \$1.70 per 100 pounds to \$1.60, Pittsburg; merchant pipe, a reduction of two points or \$4 per ton, Pittsburg; wire nails, from \$2.05 per 100 pounds to \$1.95. Sheet and tin plates were reduced early in the year, therefore, no changes were considered in the prices of these products. It is hoped these changes will not necessitate a general or radical readjustment of wages, which it is desirous to avoid.'" *Iron Trade Review*, June 11, 1908.

²⁶Benner, *Record*, *op. cit.*, Vol. VI, p. 2490; Crawford, Vol. V, p. 1780; Follansbee, Vol. V, pp. 1808, 1811; Worth, Vol. III, p. 1329 *et seq.*; Campbell, Vol. V, p. 1855.

the schedule of prices which had been adopted at the previous meeting.²⁷ This was regarded as a matter of "common business decency,"²⁸ and anyone failing to observe this condition was likely to be called to account at the next meeting. Second, the understanding, being based upon the market conditions, was subject to revision whenever those conditions changed. While the understanding was subject to abrogation by sending notice to all the competitors, it seems to have been regarded as essential to the harmonious working of the system to call for a meeting of the committee and discuss the situation with a view of reaching a new understanding in "the light of the changed conditions."²⁹ As a matter of fact, the schedule of prices established as a result of the various committee meetings appears to have been generally followed for the period immediately following the announcement. In the case of every commodity except rails, the understanding was disregarded sooner or later, and when the cutting of prices became of sufficient dimensions to merit attention a meeting of the committee was called, the situation reviewed, a new understanding reached, and a new schedule of prices announced.³⁰ The frequency of meetings in the various lines was thus an indication of the relative difficulty experienced in maintaining prices.

At such meetings the procedure varied. Sometimes the individual who was accused of disregarding the schedule would be openly charged with violation of the understanding.³¹ In some

²⁷Crawford, *ibid.*, Vol. V, pp. 1777, 1780, 1792; Campbell, Vol. V, pp. 1836, 1855; Benner, Vol. VI, p. 2507; Follansbee, Vol. V, p. 1813; Worth, Vol. III, pp. 1340, 1359; Westfall, Vol. XIX, pp. 7886, 7904.

²⁸Q. "That is to say, you felt there was a moral obligation and that you were in honor bound before you reduced those prices to give notice to them, is that correct?"

A. "I would not put it quite that way."

Q. "How would you put it, Mr. Topping?"

A. "Common business decency; for the reason that we had been coöperating for the protection not only of our own particular interests, but for the protection of our customers at that time as well." Testimony of Mr. J. A. Topping, *ibid.*, Vol. II, p. 744.

²⁹Campbell, *ibid.*, Vol. V, pp. 1838, 1840, 1862; Crawford, Vol. V, pp. 1777, 1781; Follansbee, Vol. V, p. 1808; Haines, Vol. XX, p. 8037.

³⁰Davis, *ibid.*, Vol. II, p. 562; Benner, Vol. V, p. 2490.

³¹Davis, *ibid.*, Vol. II, p. 562; Benner, Vol. V, p. 2490.

cases the accused would admit the charge and attempt to justify his action by stating that he had been forced to do so on account of repeated price-cutting by some of his competitors.³² Then an investigation would follow and a readjustment on the basis of the findings would be reached. More often the accused would reply that a mistake had been made,³³ sometimes in a freight rate, sometimes in the terms and conditions, sometimes in the price. The offender would then state that such mistakes would be prevented in the future, and the meeting would then reaffirm prices and adjourn. Sometimes the accusation would be general in its nature.³⁴ Prices were being cut in such and such a district. Representatives from the districts where the cutting was prevalent would then give their views on the situation and, after discussion, the meeting would arrive at a decision, either to maintain prices or to reduce them to a point where the incentive to cut would be less strong. In either case a new understanding would be reached³⁵ and the members of the committee would individually announce that they would observe its terms, subject, of course, to the conditions above specified. Month by month the process would continue; an understanding, price cutting, a meeting of the committee, a new understanding, a new announcement, and so on, in a constantly recurring and never-ending series.

The Gary system of coöperation,³⁶ including dinners and committee meetings, continued in active operation without any break until February 18, 1909.³⁷ During that period prices of

³²Follansbee, *ibid.*, Vol. II, p. 1808; Benner, Vol. V, p. 2491.

³³Campbell, *ibid.*, Vol. V, pp. 1839-40; Davis, Vol. II, pp. 559-60.

³⁴Benner, *ibid.*, Vol. VI, p. 2493; Campbell, Vol. V, p. 1839.

³⁵Benner, *ibid.*, Vol. V, p. 2493; Campbell, Vol. V, p. 1862; Crawford, Vol. V, p. 1777; Davis, Vol. II, p. 562.

³⁶"It was a Gary invention, pure and simple." Testimony of Mr. J. A. Topping, *ibid.*, Vol. II, p. 748.

³⁷During this period, Nov. 20, 1907, to Feb. 18, 1909, five dinners were given, viz.: (1) Nov. 20, 1907, *Record, op. cit.*, Vol. XIII, p. 4887; Vol. VI, p. 2092; *New York Times*, Nov. 22, 1907; *Iron Trade Review*, Nov. 28, 1907; (2) Jan. 30, 1908, *Record, op. cit.*, *Gov. Ex.*, Vol. IV, pp. 1472, *et seq.*; (3) April 2, 1908, *Record, op. cit.*, Vol. XII, p. 4895; (4)

the more important commercial products of the iron and steel industry, including billets, beams, plates, bars, sheets, wire, wire nails and rails, were maintained on a level substantially equivalent to that which prevailed during the year 1906 and the first three-quarters of the year 1907.³⁸

From November 20, 1907, to May 31, 1908, prices of the several commodities mentioned above were held at the high level established during the boom market of November and December, 1906. The *Iron Trade Review*, in the issue of December 12, 1907, calls attention to this remarkable phenomenon—"an utter absence of price competition³⁹ at a time when the amount of new business offered is but a small portion of the previous normal, and when the actual production is less than one-half the rate of two months ago." It further states that "the trade accepts as one of the important causes of this situation the fact that there was a meeting of billet producers in Pittsburg, October 30, and a dinner in the Waldorf-Astoria, New York, on November 20, those who attended being guests of Chairman Gary of the United States Steel Corporation." During this same period the price of pig iron, which the committee on ore and pig iron seems to have been unable or unwilling to control, sagged gradually from the new high level reached early in 1907 to a low level approximately the same as

May 21, 1908, *ibid.*, pp. 4896, 5448; (5) Dec. 10, 1908, *ibid.*, *Def. Ex.*, pp. 242, *et seq.* The general committee met only two or three times. Gary, *Record, op. cit.*, Vol. XII, p. 4892. Some of the sub-committees met only two or three times, others as often as once a month. See also *Statement of the Case, United States v. United States Steel Corporation*, p. 318.

³⁸*Record, op. cit.*, *Gov. Ex.*, Vol. XIV, p. 2920.

Q. "Did not these meetings (Gary dinners and the meetings of committees) result in the maintaining of prices?"

A. "The effect of them was to maintain prices."

Testimony of Mr. J. A. Topping, *ibid.*, Vol. II, p. 744.

³⁹"The trade well knows that the matter of price competition or no price competition depends upon sentiment; if legislators do not know this they must learn, and it may be just as well to recognize that in certain circumstances, sentiment is more likely to uphold an unreasonable than a reasonable price." Editorial, *Iron Trade Review*, December 2, 1907.

that of 1905. The "spread" between the raw materials and the finished products was thus continually increasing, even in the face of a market badly in need of stimulation. Under the leadership of the new steel kings, the policy adopted and consistently followed by the Carnegie Company in the period following the panic of 1893 had been abandoned, if not forgotten. Referring to the question of reducing prices in order to obtain sufficient tonnage "to keep our mills running at full speed," Mr. Carnegie wrote to the directors as follows: "In former depressions we announced our policy, *viz.*, take all the orders going and run full . . . even with rails it may be our best policy to meet low prices and run full . . . structural steel, probably one-half of all the steel made at tolerable prices, would be better than a large amount at lower prices, and it would be a pity to disturb an agreement that has worked so satisfactorily. In plates and all other things except these, I can see nothing for it but the old policy, take the orders."⁴⁰ "My opinion is that whatever temporary advantages might accrue from percentages which would restrict our running, our property will be worth far more years hence by deciding that come what may we shall run full as long as there are orders in the market. You know we can run full and have a margin of profit."⁴¹

Even before the Gary dinners, the steel makers, either by concerted action or as a result of the "growing appreciation of the fact that the old methods of warfare, working reckless cutting of prices, benefited no one, whether producer, consumer, or workman,"⁴² adopted a policy of restricting output and maintaining prices.⁴³ Two reasons were given for this action: first, the fear of a runaway market should the policy of

⁴⁰*Record, op. cit.*, *Gov. Ex.*, Vol. VI, pp. 1879-80. Letter of Mr. Carnegie, June 30, 1900.

⁴¹*Ibid.*, p. 181. Letter from Mr. Carnegie, June 22, 1900.

⁴²Editorial, *Iron Trade Review*, Nov. 28, 1907.

⁴³"The curtailment of output referred to last week has resulted in some good, inasmuch as there is no overproduction by the mills, and jobbers are cleaning up where they can do so without adding doubtful accounts to their books. A stiffer dose of the same tonic will be applied later in the week." *Iron Trade Review*, Nov. 21, 1907. *Pittsburg Correspondence*, Nov. 19.

price cutting be permitted even as a temporary expedient; and second, the commendable desire to protect customers who had large stocks of goods on hand⁴⁴ purchased under the regime of high prices which prevailed during the ten months immediately preceding the panic of 1907. At first there seems to have been no opposition to the policy adopted by the leaders. As soon as the surplus stocks in the hands of dealers had been reduced to normal proportions, an agitation was begun having for its object the stimulation of the demand by a reduction of prices. As early as January 20, 1908, Mr. Bope of the Carnegie Company expressed his doubts as to "whether it is the proper policy for the corporation to force the issue against all economic conditions."⁴⁵ A week later he advised the directors that it might be possible to maintain prices and obtain business sufficient to utilize 40 to 50 per cent of the capacity.⁴⁶ At the same meeting it was stated that the Carnegie Company was then "booking" about 30 per cent of the amount booked in the corresponding period of 1907. By April 30 price competition, especially in bars, was reported to be "knocking everything in the head."⁴⁷ Early in May Mr. Bope undertook a personal investigation of the situation, attending the meetings of the local sales managers of the company throughout the country for the purpose of determining whether the surplus stocks in the hands of the jobbers had been sold and whether the time was not ripe for a reduction of prices. On his return he reported as follows: "I found the unanimous report was there are no

⁴⁴Testimony of Mr. Gary, *Record, op. cit.*, *Gov. Ex.*, Vol. XII, p. 4887.

⁴⁵"We have never tried coöperation upon such a large scale as is being done in this depression. . . . We may be able to force it through. . . . but whether it is the proper policy for the corporation. . . . to force the issues against all economic conditions is something to think about." Mr. Bope, to the directors of the Carnegie Company, Jan. 20, 1908, *ibid.*, Vol. II, pp. 517-8.

⁴⁶*Ibid.*, p. 519.

⁴⁷"One concern that has been reported as 'coöperating' with us in the price policy has been persistently and consistently doing the other thing, taking business at any kind of prices they could get. . . . The result is . . . that in the bar end of our business we are meeting competition today that is just knocking everything in the head. The bar situation is the weakest feature of the whole price policy." Mr. Bope to the directors of the Carnegie Steel Company, *ibid.*, *Gov. Ex.*, Vol. II, p. 520.

stocks, neither of raw nor finished material, in the hands of the consumer or jobbers today, or indeed in our own warehouses. They are just about as bare as they can be. The people would like to replenish their stocks, but are not satisfied as to the future of prices. . . . The general feeling reported by the salesmen who come in contact with the trade is that the object of maintaining prices having been accomplished, there should now be some reduction in steel products. . . . Everything else has come down practically. . . . The agricultural people are anxious to get busy again . . . but cannot afford to pay our prices . . . they do not ask for a heavy reduction . . . they want a reasonable cut . . . with assurances that they (prices) would not go below this point, claiming that this would create a feeling of confidence, which appears to be lacking at the present time."⁴⁸

It is evident from an examination of the evidence presented by the Government and by the Steel Corporation in the case of the *United States v. the United States Steel Corporation*,⁴⁹ that the men having charge of the sale of the steel products were unanimously in favor of a reduction of prices, while those connected with the finances of the several steel companies engaged in the coöperative movement were as unanimous in favor of price maintenance. Mr. Bope presented the case for a reduction of prices "very forcibly" the following week, and while the arguments were admitted to be reasonable the committee, for other reasons which seemed "good and sufficient" to themselves, decided to continue the policy of price maintenance.⁵⁰

Notwithstanding the unanimous opinion of the principal manufacturers of steel that prices should be maintained, price

⁴⁸Report of Mr. Bope to the directors of the Carnegie Steel Company, May 18, 1908, *Record, op. cit.*, *Gov. Ex.*, Vol. II, pp. 523-4.

⁴⁹*Ibid.*, 517 *et seq.*

⁵⁰*Ibid.*, p. 525. "At a meeting of the representatives of the principal manufacturers of steel in this country the opinion was expressed by each one present that the prices of steel are reasonable and should not be reduced; that reduced prices would not increase purchasers, and that most of our customers do not expect or desire any change." From a statement to the press, following the meetings of committees and the dinner of May 21, 1908. *Ibid.*, Vol. XIV, p. 5448.

cutting became more and more prevalent,⁵¹ and the re-rollers were steadily increasing their business at the expense of the regular manufacturers. It soon became evident that the co-operating manufacturers were unable to control the situation without a revision of the price schedule and, therefore, a meeting of the committees was arranged for early in June. As a result of this meeting, the prices of the principal steel products except rails were reduced from the level established late in 1906 to one substantially equivalent to that which prevailed during the latter part of 1905 and most of the year 1906.⁵² The reduction thus finally decided upon had the effect of limiting the field of the re-rollers, discouraging price cutting, and stimulating the demand.⁵³ During the remainder of the year

⁵¹"The bar iron people, however, have generally not maintained prices, and we have heard the Standard Oil Company bought iron in the past week on the basis of \$1.10, Pittsburg. This seems incredible, but the information came to us direct. . . . Very little business in the way of bars that we have quoted on recently has gone on our books, in practically every case we being told that our price was beaten, while it is hard to secure direct evidence we know almost to a certainty that some of the mills are quoting \$1.50 on bars, and with the reduced prices on raw materials they can make a profit on this basis. We also know that some of our friends are waiving extras. . . . We are only getting specifications at the rate of 4,000 to 5,000 tons per week, and that is ridiculous. We also have evidence of cut prices on hoops and cotton ties." From the report of Mr. Bope to the directors of the Carnegie Steel Company, May 25, 1908. *Record*, United States v. United States Steel Corporation, *Gov. Ex.*, Vol. II, p. 525.

⁵²New York, June 10.—After the meeting of steel manufacturers last night, Judge Gary issued the following statement:

"The representatives of the leading steel manufacturing companies have been in session during the day. It is understood that the price of iron ore has been or will soon be reduced 50 cents per ton base. Each one of the steel manufacturers expressed the opinion that there should be a readjustment in the prices of the respective commodities as follows: "Billets, from \$28 per ton to \$25, Pittsburg; sheet bars from \$29 per ton to \$27, Pittsburg; plates from \$1.70 per 100 pounds to \$1.60, Pittsburg; structural iron, from \$1.70 per 100 pounds to \$1.60, Pittsburg; merchant pipe, a reduction of two points or \$4 per ton, Pittsburg; wire nails, from \$2.05 per 100 pounds to \$1.95. Sheet and tin plates were reduced early in the year, therefore no changes were considered in the prices of these products. It is hoped these changes will not necessitate a general or radical readjustment of wages, which it is desirous to avoid." *Iron Trade Review*, June 11, 1908.

⁵³*Record*, *op cit.*, *Gov. Ex.*, Vol. II, p. 528.

1908, and even into January, 1909, the coöperative movement was generally supported by the manufacturers and prices were fairly well maintained.⁵⁴ But early in February signs of a complete disruption of the Gary system began to appear,⁵⁵ and on February 17 the finance committee and others appointed a special sub-committee on trade conditions,⁵⁶ and as a result of the report of the sub-committee the Steel Corporation decided to withdraw from the coöperative movement inaugurated through its chief executive officer in 1907, and on February 19, at a general meeting of the leading steel manufacturers held under the auspices of the American Iron and Steel Institute,⁵⁷ declared for an open market.⁵⁸ Immediately following the declaration of February 19, prices were reduced generally from \$2 to \$4, and in certain cases \$6 per ton⁵⁹ and, although

⁵⁴"The president stated to the committee that he had received information of substantial price cutting by competitors, particularly in plates and structural materials. He further stated that he did not recommend a reduction in our prices at that time." From minutes of finance committee, United States Steel Corporation, Jan. 19, 1909. *Record, op. cit., Gov. Ex., Vol. II, p. 616.*

⁵⁵"There is not that coöperation which existed a year ago." Mr. Bope to the directors, Carnegie Steel Company, February 8, 1909. "Mr. Stackhouse also said he has become thoroughly tired of 'holding the bag' and that during the week he notified his people to meet competition in plates where they were suffering on account of cut prices to their regular customers so that Cambria is now in the market at cut prices. We have, however, done nothing in this direction, have turned down good business offered to us below the market, and are just waiting to see what the results are going to be." Mr. Bope, to the directors, Carnegie Steel Company, Feb. 15, 1909.

⁵⁶Consisting of Gary, Corey and Perkins, *ibid.*, Vol. VI, p. 1976. Mr. Corey, according to his testimony, had been for some time before this date in favor of meeting market conditions and making a cut in prices. *Ibid.*, Vol. VIII, p. 3005.

⁵⁷*Ibid.*, Vol. VI, p. 2098; *ibid.*, Vol. XII, p. 4901.

⁵⁸"As a matter of record, it is in order to say that during the week the Corporation decided to cut loose entirely from the policy of coöperation, and prices today on all products excepting standard rails are absolutely open." Mr. Bope to the directors of the Carnegie Steel Company, February 22, 1909. *Ibid.*, Vol. II, p. 533.

⁵⁹"The first thing done by our competitors was to immediately set prices down \$6 per ton." Mr. Bope to the directors of the Carnegie Steel Company, February 19, 1909. *Ibid.*, Vol. II, p. 533.

the "open market" was regarded with suspicion for a time,⁶⁰ the orders began to come in and by the end of March the open market policy had completely vindicated itself by stimulating general business without at the same time demoralizing the iron and steel trade.⁶¹ With the declaration of the open market, the Gary system, properly speaking, came to an end.⁶²

As a result of the general reduction of prices following the declaration of the open market, the industry soon assumed a normal condition, and by September 1, 1909, the Carnegie Company had booked orders for pig iron in excess of its productive capacity and early in that month began to advance prices of all kinds of finished products except rails.⁶³ Before the open market was declared by the Steel Corporation, the competitors of that company were booking a much larger share of the total tonnage than was possible under a competitive price schedule.⁶⁴ Immediately after the coöperative movement was abrogated, the United States Steel Corporation began to regain its former position in the industry and within one month thereafter it was said to be setting a pace a little too fast for the other mills.⁶⁵ By October 1 prices of the various commodities had

⁶⁰"A great many customers seem to have made up their minds that our action is a bluff, that the coöperative idea is still in existence, and that we have simply fixed prices at \$1.20 for bars and \$1.30 for shapes and plates instead of \$1.40 and \$1.60, but I think they will soon have a different idea on that score and that tonnage will begin to come out." Mr. Bope to the directors of the Carnegie Steel Company, March 1, 1909. *Ibid.*, Vol. II, pp. 534-5.

⁶¹"The whole situation goes to bear us out in our claims that after a depression the only way to start buying is by a reduction in prices, and I believe that rails would be stimulated also by a reduction, if it is thought wise to do so." Mr. Bope, *ibid.*, March 29, p. 541.

⁶²*United States v. United States Steel Corporation et al. Argument for defendants*, p. 176.

⁶³Minutes of the meetings of the directors of the Carnegie Company. *Record, op. cit.*, Gov. Ex., Vol. II, pp. 540-44.

⁶⁴"It got to a point where we were not getting anything like our fair share of the business; very much below it. We stood it as long as we could consistently." Mr. Gary, *ibid.*, Vol. XII, p. 4904.

⁶⁵"In general, the business that has been placed has largely come to us. The other mills seem to think that the pace we are setting is a little too fast for them. . . ." Mr. Bope to the directors of the Carnegie Steel Company, March 22, 1909. *Ibid.*, Vol. II, p. 539.

been advanced to a level approximately the same as that maintained by the statistical association of 1906, and all the manufacturers, the United States Steel Corporation as well as the independents, were apparently ready for a resumption of the coöperative movement. As Mr. Gary, the chief executive officer of the Steel Corporation, had taken the initiative in 1907 in proposing the policy of coöperation and again in 1909 in the declaration of the open market, it was evident to all parties that the call for a general meeting of the steel manufacturers would be received with better grace if it were cloaked under a summons less obvious than an invitation to another Gary dinner. As usual, the steel makers were equal to the emergency. It was proposed to present a loving cup to Mr. Gary in honor of his work as a peacemaker in the industry and thus open the way for a new era of harmony and coöperation. The event was arranged for October 15, 1909, and at the complimentary dinner the addresses, with the exception of those immediately connected with the presentation of the loving cup and the responses, were entirely occupied with restoring the principles of the coöperative movement and following such restoration a return to the methods and measures of the Gary dinner system.

The keynote of the evening was sounded by Mr. Willis H. King, vice-president of Jones & Laughlin, in an address on the subject, "The Old Order Giveth Place to the New."⁶⁶ The old order was "an almost unbroken record of disappointment and disaster, of long credits and bad debts, of unreasonably high or unreasonably low prices, of destructive competition, of sales below costs, of bankruptcy for the many, of competence for the few. The new order was one of reasonable competition, of friendship in business, of high standards of honor, of stable prices, and of general prosperity in the whole industry." Mr. Drummond of the Algona Steel Company of Canada, speaking on "Basic Principles," credited Mr. Gary with having transformed the steel industry by dispelling the feeling of distrust that formerly pervaded it and establishing the new basic principle of "trust and good faith in one another."⁶⁷ Mr. Schwab in making the presentation speech, emphasized the same idea

⁶⁶Address in full, *Record, op. cit., Def. Ex.*, Vol. III, p. 348.

⁶⁷Address in full, *ibid.*, Vol. III, p. 345.

by calling attention to the fact that while men had been honored for scientific attainments or for operative ability, this was the first time that the heads of all the leading concerns in the United States and Canada had assembled to do honor to a man who had merely introduced a new principle into the industry.⁶⁸

Mr. Gary, after acknowledging in appropriate language his appreciation of the honor thus given him, turned at once to the central theme of the evening, *viz.*, the elimination of destructive competition and the substitution therefor of fair and friendly coöperation. In former days, he stated, while there was no actual breach of the law, while there was no recourse to force and violence, still the methods employed generally in the iron and steel trade were calculated to enforce the law of the survival of the fittest. Such a course, he asserted, was not for the best interests of all concerned, including the manufacturer, his workmen, his customers, and the general public. The panic of 1907 demonstrated the truth of this. On that occasion a financial giant arose and, turning his face toward the storm, with his keen perception piercing the clouds and discerning the sun of prosperity on the other side, invited his friends to join him in providing financial assistance to the weak and afflicted banks, at the same time he gave words of hope and cheer to the communities at large. This action on the part of Mr. Morgan was the result of his feeling of friendship for his acquaintances, his neighbors, his countrymen, and humanity in general. Inspired by his example, Mr. Gary continued, "you adopted a similar policy, you came together in the most friendly spirit, high minded, honest, frank and fair toward each other, and with a kind feeling for all who might be concerned in our action. You literally placed upon our table all evidence relating to your affairs, your methods, your interests, your conduct, and your intentions. . . . Never before in the history of the country did such a large body of men, with responsibilities so great, treat one another on a basis so generous, fair and high-toned." "For your action under such trying circumstances," he assured them, "you have been commended by leading bankers and financiers, and especially by your customers. The principles then applied so successfully must be

⁶⁸Address in full, *ibid.*, *Def. Ex.*, Vol. III, p. 351.

extended. If they are good for us, they are equally good for our employees and the public. You have taken an advanced position, and you will not recede from it."⁶⁹

The event was ably planned and skillfully executed. It was followed by a general advance in prices,⁷⁰ a resumption of conferences between representatives of the leading steel manufacturers,⁷¹ and a cessation of the complaints in regard to price cutting, unfair competition, and the like. But as in the case of the Gary dinner system, the steel makers were far too shrewd and experienced to depend wholly upon appeals to sentiment, or incitations to a new code of business honor. The Gary dinner system had been established, inspired and directed by one man; now a permanent organization of the entire industry must be effected.

On September 11, 1908, Mr. Gary was the guest of honor at a complimentary dinner given by the governors of the Iron and Steel Institute of Great Britain. On that occasion, while preaching as usual the doctrines of coöperation,⁷² Mr. Gary closely observed the structure and operation of the organization through which the steel makers of Great Britain were associated. Soon after his return to America, the American Iron and Steel Institute was projected and early in 1909⁷³ it was fully organized and began its work. Mr. Gary was elected the first president, and Mr. J. T. McCleary⁷⁴ was somewhat later appointed as secretary in charge of the general activities of the association.

The Institute was created to furnish a common meeting place for those responsible for the management of the various steel mills; a place where all kinds of questions bearing upon their business affairs might be freely and fully discussed; where

⁶⁹Address in full, *Record, op. cit., Def. Ex.*, Vol. III, pp. 352-9.

⁷⁰*Ibid.*, *Gov. Ex.*, Vol. XIV, pp. 2897, 2864.

⁷¹Worth, *ibid.*, Vol. III, pp. 1346, 1350, 1351, 1358; Benner, Vol. VI, p. 2507; Crawford, Vol. V, p. 1780; Follansbee, Vol. V, p. 1804; Davis, Vol. II, p. 576; Haines, Vol. XX, p. 8036; *ibid.*, *Gov. Ex.*, Vol. II, pp. 547-9, 551.

⁷²"Judge at those dinners would exhort us like a Methodist preacher at a camp meeting." Mr. J. H. Reed, *ibid.*, Vol. XIV, p. 5685.

⁷³May, 1909. Testimony of Mr. E. H. Gary, *ibid.*, Vol. XII, p. 4907.

⁷⁴Formerly Representative in Congress for the Second District, State of Minnesota.

ethical questions were to be considered as important as economic or scientific ones; where "the rights and duties of each member, so far as his conduct relating to this particular department of industry is concerned and within the limits of propriety, should always be matters for the deliberation of the whole membership of the Institute."⁷⁵ During the latter part of 1909 and the early part of 1910 the Institute was in process of organization. It was intended to hold the first public or formal meeting in May, 1910, but the meeting was postponed to October of that year in order to secure the attendance of certain foreign manufacturers who were visiting the country at that time.⁷⁶

On this occasion Mr. Gary was the chief spokesman and, after outlining the purposes of the Institute as conceived by the charter members, directed attention to the theme which had occasioned the foundation of the Gary dinner system, *viz.*, the maintenance of stable prices by means of the coöperative movement. After defending vigorously the policy of maintaining stable prices, he went on to state the means by which such a result may be achieved. These proposed means were: First, continued coöperation; second, frank and friendly intercourse; third, full disclosure of his business by each to the others; fourth, recognition by all of the rights of each; fifth, a disposition to assist and benefit each other so far as practicable and proper; and sixth, conduct founded on the belief that healthy competition is wiser and better than destructive competition. Agreements to maintain prices, he affirmed, are not merely illegal, they are unnecessary. There is, however, no law to compel competition. Wherever competitors come into frequent and friendly intercourse, where they make full disclosures, where they notify each other of what they are doing, they will not act unjustly or dishonorably toward each other. This contention, he assured them, had been proved by experience. The coöperative movement is destined to extend, he continued, until it shall embrace within its domain not only domestic competition, but foreign competition as well, and even the governments of the Nations of the earth. It is to be the

⁷⁵Statement of the purposes of the Institute—Gary. *Record, op. cit., Def. Ex.*, Vol. II, pp. 247-249.

⁷⁶Mr. Gary, *ibid.*, Vol. XII, p. 4907.

function of the Institute to act as the organized agent of the steel makers in extending the spirit of coöperation to our competitors, to our employes, and to our customers.⁷⁷

Notwithstanding the unanimous approval of the coöperative movement, as expressed at the first formal meeting of the American Iron and Steel Institute; notwithstanding the meeting of the committees,⁷⁸ conferences,⁷⁹ and conversations, the demand for steel and steel products continued to fall off, stocks continued to accumulate, and prices continued to decline, except in those lines that were under complete control, such as rails, bars, and plates.⁸⁰ With pig iron accumulating, while the price was gradually falling, the situation grew more and more serious.⁸¹ Moreover, the arguments in the Standard Oil and tobacco cases were then being made, and the attitude which the Supreme Court might take toward combinations, consolidations, and understandings was at that time a matter of the greatest uncertainty. In view of these circumstances, a special meeting of the American Iron and Steel Institute was called for January 11, 1911,⁸² for the purpose of considering the cause or causes of the hesitation in business and of determining upon the proper course to pursue in view of the conditions.

At this meeting there were eighty-nine men present, including the chief executive officers of every important steel producing plant in the United States. Of these, thirty were called

⁷⁷Address in full, *Record, op. cit., Def. Ex.*, Vol. II, pp. 245-255.

⁷⁸*Ibid.*, Benner, Vol. II, p. 2507.

⁷⁹*Ibid.*, Worth, Vol. III, p. 1346.

⁸⁰*Ibid.*, Vol. XIV, p. 2920: "The reaffirmation of prices during the week has been accepted by the trade generally as the proper thing to do at this particular time, but it has not resulted in any increase in demand. We are taking but very few contracts today, not because people do not need material, but because they are holding off in anticipation of a reduction. The point has been reached where the trade feels a reduction is necessary to stimulate business, as the belief has become pretty general that it is not going to be possible to hold the situation much longer. The advices we have had from our agents, however, indicate that prices are pretty well maintained today." Mr. Bope to the directors of the Carnegie Steel Company, Dec. 19, 1910, *Record, op. cit., Gov. Ex.*, Vol. II, p. 548.

⁸¹*Ibid.*, p. 550.

⁸²Addresses in full, *ibid.*, Vol. IV, pp. 1384-1428.

upon to express their own individual opinion in regard to the situation, and without exception every speaker expressed the view that "any change in prices would be a calamity."⁸³ All were in favor of the coöperative movement, of frequent meetings, of maintaining the situation, of standing together, and of waiting for improvement in conditions which was sure to come provided business was not unsettled by a reduction in prices. This program, it was thought, was not only defensible as a general proposition, but, according to the views of Mr. Gary, was entirely feasible. The leaders of the steel industry, he affirmed, were not only gentlemen, they were friends and neighbors, having an affectionate regard for each other. Each of them had reached a position so high in the industry that they were bound in honor to protect each other and, where one's honor was at stake, the position was more binding than any written or verbal contract.⁸⁴

As a direct result of the January meeting of the Institute, prices were fairly well maintained until May 24, when the Republic Iron and Steel Company gave notice⁸⁵ that on and after that date it would make a reduction of \$3 per ton on steel bars, its principal product. With a market already overstocked and prices maintained above the competitive level by concerted action, the step of the Republic Company was sufficient to re-establish an open market not only for bars, but for all other steel products, except, of course, standard rails.⁸⁶ The action of the Republic Iron and Steel Company was at once taken into consideration by the leaders of the coöperative movement, with the result that a luncheon was given by Mr. Gary at the Metropolitan Club in New York City on May 29.⁸⁷ At this meeting

⁸³Stackhouse, *ibid.*, p. 1426.

⁸⁴*Ibid.*, Vol. IV, p. 1387.

⁸⁵At a meeting of the directors of the Iron and Steel Institute, and by an announcement to the press, Topping, *Record*, *op. cit.*, Vol. II, pp. 679-80, 728.

⁸⁶The coöperative movement never extended to pig iron except for comparatively brief periods. At the meeting of Jan. 11, 1911, Mr. E. C. Felton, of the Pennsylvania Steel Company, remarked: "Now in the pig iron situation there has been in a general way an open market. That is prices have been met by everybody as they saw fit and things have gone as you know, down, down, down." *Ibid.*, Vol. IV, p. 1402.

⁸⁷*Statement of the Case—United States v. United States Steel Corporation*, p. 347; *Record*, *op. cit.*, Vol. XIV, p. 5453.

Mr. Gary delivered an address,⁸⁸ the principal object of which seems to have been to determine whether it was the opinion of the steel makers that "the time for coöperation had gone by or whether it should be suspended and each one should take care of himself, go his own way, doing his own business in his own way, when, where and how he pleased."⁸⁹ The real question at issue was, he assured them, "whether or not you and your business can be entirely demoralized by the disposition or the action of one individual or a few individuals in the trade."⁹⁰ While, according to Mr. Gary, he had no wish or intention to make any agreement, express or implied, contrary to the law, it was his opinion that it was highly important for the long future that the steel manufacturers continue their relations of friendship and open and frank expression with reference to what they were doing.⁹¹ His position never varied. He was always ready to give the names of customers, the prices charged, and any information concerning the business, the mills, the clients, or the company, so long as those seeking such information were willing to reciprocate.⁹² For his part,

⁸⁸Address in full, *ibid.*, *Def. Ex.*, Vol. III, pp. 296-307.

⁸⁹"Of course if any one believes that the time of coöperation has passed, . . . then certainly no one could object to his saying frankly and boldly what conclusion he has reached, and we could all be governed accordingly; but if, on the other hand, we believe by long experience that, acting as we have and to the extent we have within the lines of law and within the lines of reason and within the lines of propriety and good morals, we have been doing the best thing; then it seems to me that the first thing for us to decide is that we have no disposition to depart from the course which we have been pursuing; and if you reach that conclusion today, gentlemen, then some may have some suggestions of a more practical character to consider with reference to what is necessary, if anything, to be done at the present time, concerning this particular business in question. On the other hand, if it is your opinion that the time for coöperation has gone by or that it should be suspended, then we ought to find that out and we will all go our way, parting as friends, but at the same time separating entirely; which means that we will simply go upon our way, doing our own business in our own way, when, how and where we please." Mr. Gary to the guests at the luncheon of May 29, 1911, *ibid.*, pp. 304-5.

⁹⁰*Ibid.*, p. 256.

⁹¹*Ibid.*, p. 312.

⁹²*Ibid.*, p. 302.

his judgment was entirely in favor of a continuance of the coöperative movement. After a general discussion of the conditions, it was unanimously decided to continue to coöperate⁹³ and, at the same time, as afterward announced, the manufacturers present expressed the opinion that the developments required some change in prices. The new price list, as announced by the subsidiary companies of the United States Steel Corporation, not only met the cut on bars inaugurated by the action of the Republic Iron and Steel Company on May 24, but extended the reduction to all finished products except rails, wire and tin plate.⁹⁴ In the announcement it was stated that it was believed that the reduction proposed by the United States Steel Corporation and its subsidiaries would be generally followed.⁹⁵

The luncheon of May 29, 1911, was the last meeting of the steel makers in connection with the coöperative movement. On July 1 following, the report of the Commissioner of Corporation on the Steel Industry, with particular reference to the organization, investments, profits, and position of the United States Steel Corporation, appeared. The Stanley Committee on the investigation of the United States Steel Corporation was appointed in May, 1911, and held its first session on the 27th of that month. On October 26, 1911, the Attorney General of the United States filed a petition in the Circuit Court of the United States for the District of New Jersey, asking

⁹³"Representatives of the leading manufacturers of finished steel (except the Republic) met at the Metropolitan Club today and existing conditions were fully discussed. It was the unanimous opinion that coöperation as heretofore fully explained, should be continued." Announcement of Mr. Gary, *Iron Age*, June 1, 1911. *Record, op. cit.*, Vol. XIV, p. 5450.

⁹⁴*Idem.* Quoted from *Iron Age*, June 1, 1911.

⁹⁵The commodities affected, and the new prices were as follows: Steel bars (15 cents per 100 pounds off), \$1.25 base. Plates and structural shapes (5 cents per 100 pounds off), \$1.35 base. Black sheets (20 cents per 100 pounds off), 2 cents per pound for No. 28 gauge. Galvanized sheets, 3 cents per pound for No. 28 gauge. Blue annealed sheets (10 cents per 100 pounds off), \$1.50 per pound for No. 10 gauge. Steel billets, 4-inch square and larger, \$21 per gross ton. Sheet bars, \$22 per gross ton. All free on board Pittsburg, effective June 1, 1911, for shipment prior to Oct. 1. *Ibid.*

that the Corporation be dissolved and that the officers and stockholders be perpetually enjoined from the further continuance of acts which were alleged to be unlawful. In view of these attacks of the Government from three different sources, administrative, legislative, and legal, the coöperative meetings of the steel makers were finally and permanently abandoned and the Gary dinner system thus came to an end.⁹⁰

⁹⁰"We have not had any since 1911, I will say since 1911, since the Stanley committee meeting, prices have not been even influenced directly or indirectly by even an exhortation." *Record, United States v. United States Steel Corporation—Gary*, Vol. XII, p. 4905.

"But the period of coöperation had passed away before the bill was filed, and so far as we can see it is not likely to be repeated. We do not think the Gary movement would justify us in imposing so drastic a penalty of the dissolution of the Corporation, but we will, if the Government moves for such an action, retain the bill for the purpose of restraining any similar movement by the defendants that might be contemplated hereafter." *Opinion of the Court, United States v. United States Steel Corporation*, p. 141.

RECENT CHANGES IN MARKETING AMERICAN COTTON IN EUROPE

BY A. B. COX

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Europe was a market for cotton before America was discovered. The urgent demand for cotton to supply the increasing requirements of Europe was the most important of the stimuli for starting cotton growing on a commercial scale in the United States. In the beginning, Europe took by far the most of our production, and there has never been a year in which conditions were normal that she did not take considerably over half of our production. Last year our exports amounted to a little over 62 per cent of the crop of 13,500,000 bales. Of these exports, 87 per cent went to Europe.

These percentages for the crop as a whole do not measure the importance of Europe as a market for the cotton of the Southwest. At least 75 per cent of the American cotton which goes to Europe is grown in the Southwest. Cotton grown in this region brings a premium in every market in Europe over Atlantic cotton of the same grade and staple length. The people of these States have, therefore, a more vital interest in European markets than the people of other sections.

COTTON MARKETS IN EUROPE

There are three general types of cotton markets in Europe. First, the import or merchants' markets, which are the gateways through which the cotton passes into foreign hands. Second, the spinners' markets, which are usually in the spinning centers of the interior, and are the markets through which the cotton merchants sell their cotton to the spinners. And lastly, the futures markets, which are the cotton price-making centers and are used for hedge purposes by all classes of people handling either cotton, cotton yarn, or cotton goods.

The European import markets are, in the order of their importance, Liverpool, Manchester, Bremen, Le Havre, Genoa (as the gateway to Milan), Barcelona, Rotterdam, Ghent, and

Antwerp. There are several other ports, such as London, Hamburg, Dunkirk, and Venice, through which some cotton enters, but these places have no organized cotton markets and the cotton is sent through such ports only from time to time by merchants in the above-mentioned organized markets. Liverpool and Bremen are by far the most important of the European markets, both from the standpoint of the volume of cotton handled and their influence over other markets in leadership and market facilities. Havre is the predominant market in France, but is little used outside of France.

The import or merchants' markets establish the rules for the conduct of the cotton business in Europe. In the main, disputes are settled in merchants' markets by merchants and according to rules established by them. Liverpool and Bremen, especially, not only conduct all the arbitrations in which their own members are interested parties, but each acts in hundreds of arbitration cases for clients in other markets.

The war did not greatly affect the relative importance of the merchants' markets. The loss of Alsace by Germany to France, the breaking up of Austria, and the formation of the independent countries of Poland and Czecho-Slovakia, have taken away some of the business from Bremen and slightly increased the importance of Le Havre, Milan and the Belgian markets. Rotterdam has greatly increased her facilities, with the hope of also permanently taking a part of the Bremen business. The facts indicate that she will not be very successful in this endeavor.

A spinners' market is one in which the chief business is the sale of even-running cotton to spinners. Manchester, Milan, Turin, Rotterdam, Ghent, Cernitz, Reine, Munich, Lille, Mulhouse, Zurich, Lodz, and Vienna are typical of these, and are the most important ones in Europe. Naturally, one market may perform both functions, as is the case with Liverpool. As a rule, the strictly spinners' markets are poorly organized and have very little to say, unless indirectly, in shaping the rules which govern the conduct of the cotton business in Europe.

There are three markets in Europe which deal in contracts for the future delivery of cotton. These are Liverpool, Le Havre, and Bremen. They were all in existence when the war began. Liverpool was one of the first to be organized in the

world, and Havre is also quite old. The Bremen futures market, on the other hand, had just been organized when the war broke out. It was not reopened until January, 1925.

The Havre futures market has never done a great deal of business outside of France. The instability of currency since the war has tended to prevent expansion. The addition of Alsace to French territory tends to give the market more business, but that will not greatly increase its importance.

Bremen, before the war, had had a futures market for too short a time to establish itself. Likewise, its life-history since the war is too brief to furnish a satisfactory basis on which to forecast its future. Up to the present, the volume of business has been very small, and has been confined to local operations.

NEW YORK BECOMES THE WORLD'S HEDGE MARKET

Before the war, Liverpool was generally considered the hedge market of Europe. Its activity was the barometer of the cotton trade on the European side of the Atlantic. Even at the present time, the other two futures markets are not comparable with it. Its chief rival is New York. During the war, New York became the hedge market for Europe, and has continued to hold the bulk of Continental business outside of France.

The addition of this large volume of European business to New York's trade has given it a volume of business which is unrivalled by any other futures market in the world. This has had two important consequences. It has strengthened its position in the realm of price-making, and has improved its position as a hedge market. The futures contract is a time transaction which normally does not mature for several months. It is essential, therefore, if the business is international in character, as in the case of cotton, for it to be done in a stable currency, otherwise the traders must either hedge their currency or speculate in the rate of exchange. This is one of the important reasons why so much of the Continental futures business is done in America.

THE DOLLAR BECOMES THE INTERNATIONAL CURRENCY

Since the war, cotton prices are quoted by the American shippers to their Continental merchant customers in dollars.

These merchants, in turn, generally quote in dollars to their spinner customers if a term transaction is under consideration. If they quote prices in a Continental currency for forward delivery, without having the cotton bought and hedged in the currency used, they hedge the rate of exchange as well as the price of cotton in American markets in dollars.

THE "ON CALL" SALES

Europeans buy American cotton "on call." The "on call" sale is a sale of a specific description of cotton at a price made in terms of futures, the exact amount of which will be determined later by either the purchase or sale of a futures contract, as the case may require.

The price of cotton in the market is made up of two parts. The first part is the price of the futures contract itself. The second part is either the premium on futures if the grade and staple is better than middling seven-eighths-inch staple, the base of the futures contract, or so many points off the futures price if the quality is below middling. In the case of an "on call" sale, the amount of the second part is fixed at the time the sale is made, while the first part remains to be fixed at a later date. In order to make this effective and specific, the futures market must be named, the particular month of delivery must be specified, and someone must be given the privilege to name the exact time the price is to be taken. This part of a typical "on call" contract reads about as follows: "The X Spinning Company has this 10th day of October, 1926, bought from Y Cotton Company 100 bales of strict middling inch cotton at 300 points on December New York buyers' call." When the spinner sells his yarn, he wishes to fix the price on his "on call" cotton. For example, if he sold yarn on November 5, he wires Y's New York broker to fix the price on 100 bales for the account of Y. If Y has not yet bought the cotton to fill the order, the price is fixed by buying 100 bales (one contract) in the futures market. If he has already bought the spot cotton and hedged it, he fixes the price by buying a contract to offset the one sold as a hedge.

Such business affects to some extent the price of the "basis," the "on" or "off" premium or discount for the quality specified, but influences the prices of futures contracts very little at the

time the "on call" contract is made. The price-making center in the cotton world is the futures market. As shown in the example, the "on call" basis purchases and sales do not involve purchases or sales of contracts for future delivery until prices are called or the spot cotton is bought to fill the "on call" contract, and neither of these may take place for from one to six months after the original call sales are made.

The "on call" forward delivery business for the new crop begins to be made as early as March. By the end of July, European cotton merchants and spinners have sometimes bought the basis by use of the "on call" contract on a large portion of their supplies. This large volume of "on call" business in specified qualities, before there is any appreciable indication of what the yield will be, and much less what the qualities of the crop will be, makes the basis risks on the forward sales business extremely speculative for the seller. He has no hedge on such risks. They are greatest for the one who sells heavily of only one or two classes. The entire crop may be oversold or undersold, depending on the way the crop turns out, and it invariably happens that some grades or staple lengths are either oversold or undersold.

CHANGES IN THE CALL PRIVILEGE

Most of the "on call" business between the English and American merchants is based on the Liverpool futures market, and the seller is given the right of call. It is customary to call the price before the date of shipment. Business between American and Continental merchants is done differently. In all the countries the price of spot cotton is based on the price of futures contracts in New York. Sales are made on buyer's call in most instances, though in some exceptional cases the seller is given the right of call. The price may be called before or after date of shipment. In Bremen the contracts usually call for cash on landing. In France it is cash on receipt of document.

The European spinners' method of buying cotton varies considerably from one country to another. The most of it is bought "on call," with the call privilege being given invariably to the spinners. In England they buy according to Liverpool rules, which provide that they must call the price on or before

one day before the last day of the month named in the contract. The price is based on Liverpool futures, and the price is the price of execution. In most cases the English mills are still doing what is ordinarily called a "hand-to-mouth" business. This means that the spinners' sales are in small lots, and that they call the prices only as they sell yarn.

Throughout the Continent it is customary for the spinners to buy cotton on buyers' call, though in the East and Southern countries some business is done with small spinning firms at fixed prices. Where cotton is bought "on call," it is based on New York futures, except in France, where it is based on Havre. When the call is based on New York, it is customary to permit the spinner to call the price on the previous day's close up to about the time Liverpool opens. In some cases, especially in Spain and Italy, the spinners are often permitted to call prices on the previous day's close of New York, even after Liverpool opens. In Germany and the other North European countries the spinners are expected to call the price prior to or during the month specified. In Italy and Spain the rule is to call the price five days before the month specified in the contract becomes current. This rule is not always followed. They are not only permitted to call the price any time during the month, or previous to it, but they may transfer the hedges to distant months as often as they choose so long as they pay the cost of transfer and are considered financially sound.

UNIVERSAL STANDARDS

Prior to the war, the grade of American cotton was described in Europe generally in terms of Liverpool standards, though when the war began a movement for the adoption of universal standards had nearly succeeded. The war cut off negotiations. The movement was revived in 1919, and universal standards for the grade and color of American cotton were adopted in 1923.

These standards are doing much to promote the sale of cotton on description for grade. In some of the Continental markets buying is done almost entirely on description in terms of universal standards for grade, and to a large extent for color. The type business has been more highly developed in

England, and the English merchants, and especially the spinners, are much slower in changing their methods of doing business. The spinners on the Continent buy most of their cotton for forward delivery on description; the English buy most of their cotton on type or actual samples.

HANDLING COTTON

The manner of handling cotton is essentially the same as before the war, though the expenses for doing the work have increased greatly. Dock and port facilities are being gradually improved, and the methods of weighing, sampling, and taring of the cotton are being standardized, though much remains yet to be done. The American Shippers' Association is bending its efforts to simplify and bring about more uniform methods in the different ports. Rules governing cotton handling have been made by each market to meet special circumstances as they have developed in its own jurisdiction. There is at least one very notable exception to this rule in the international rules regarding bills of lading for the shipment of cotton from America to Europe. This agreement is known as the Liverpool conference agreement of 1907. Similar agreements with regard to weights and weighing, tare and taring, and samples and sampling, as well as other phases of the business, might well be worked out along the same general lines.

SETTLING DISPUTES

The numerous and ever-changing qualities of cotton and the lack of standardization of these qualities have resulted in many misunderstandings, which have made necessary the development of some convenient method of settling disputes quickly and by men skilled in making the technical decisions necessary to promote amicable relations and fair dealing. Before the war it was customary for the smaller markets to have their arbitrations done in the big markets. Outside of France, contracts were generally drawn subject either to Liverpool or Bremen arbitration, and of these two Liverpool was by far the most frequently used. It was generally believed that there were three difficulties disqualifying the small markets for arbitration. These were, first, the lack of men in such markets

conversant with all the different qualities of cotton, since the quantity of cotton handled in them is restricted. The second was the difficulty of establishing proper differences for the various qualities. The third was the undue publicity necessarily given to the business of individual firms. These arguments have all been weakened during and since the war. The adoption of universal standard types is apparently making arbitration for quality much easier. The process of standardization is also simplifying the problem of making differences, for it is making easier the checking of differences in one market with those in another. The war has accustomed the people to the giving of more information about their business than formerly, hence more information is now available. The big markets are thus losing a part of their former prestige and the smaller markets are setting up their own systems of arbitrations on quality.

SYSTEMS OF ARBITRATION

There are three more or less standard systems of arbitration and one new system, which require brief description. The most important one of these is known as the English or Liverpool system. The chief characteristics of the Liverpool method of arbitration are that the award of the arbitrators is given in terms of points "off" the price quoted in the contract. The award neither designates the number of bales at fault nor wherein they are deficient. Each contending party picks one arbitrator, and the two thus selected are capable of rendering a decision if they agree, otherwise they must call in an umpire, who has the right to render a decision himself if neither of the arbitrators agrees with him. Any member of the Liverpool Cotton Association may be selected as an arbitrator. The arbitrators know the contending parties and all the circumstances of the case. Each arbitrator is paid by the party selecting him. In case an umpire is required, he is paid one-fourth of the total fees by the party farthest from the arbitration or appeal award.

The Liverpool system of appeal is operated differently from its system of arbitration. The twelve members of the appeal board are selected by a vote of the members of the association.

Election carries considerable honor, as well as remuneration in fees. Six members of the committee constitute a quorum. The appeal committee has a right to the decision of the arbitrators and all the facts on the case possessed by them, and it has a right also to request additional information from any member. Since the adoption of universal standards and the Washington agreement of 1923, the members of the appeal committee are appointed by the Secretary of Agriculture as officials of the United States Government in the classification of American cotton sold on universal standards by Americans. The classification of the appeal committee is thus recognized as *prima facie* evidence of the grade and color of the cotton.

The Bremen system of arbitration is quite different. The classification of the cotton is done by paid experts, who know neither the names of the parties at dispute nor their respective claims. The only function of the arbitration committee is to class the cotton according to grade, staple, and color. The differences for these qualities which are to be applied are fixed, not by the arbitrators, but by an entirely separate committee of merchants. This difference committee meets on Friday of each week and makes differences to apply for the following week. Those who serve on this committee have a right to all the available data in the market to assist them in arriving at correct differences. If they deem these insufficient, they may take differences prevailing in other markets into consideration. The award is completed by applying the differences fixed by the committee on differences to the classification given by the experts.

The Bremen board of appeal is composed of merchants and not of paid classers. It has twelve members, chosen by the board of directors. Each appeal is decided by a committee of three, appointed by the committee for the nomination of arbitrators. One of the classers who served on the arbitration is appointed to attend the sessions of the appeal committee in an advisory capacity. This appeal committee may change the classification given, but not the differences applied. The Bremen appeal board has the same official recognition as the appeal board in Liverpool.

The Havre system is probably the best adapted for the smaller markets. It attempts to get some of the better principles of the Liverpool and Bremen systems, with the least

amount of cost and formality. The arbitration is done by the brokers in the market, and not by paid experts. The arbitrators are not chosen by the parties in dispute, and they do not know the names of the contending parties or their respective claims. They class the cotton strictly on its merits as to grade, staple, and color. The differences to be applied in arriving at a monetary settlement are fixed in a general meeting of the entire association. They are applicable to spot cotton transactions only, and are subject to change at any time on notice. The grade differences for cotton delivered on futures contracts are fixed quarterly in advance. No differences are paid on futures contracts for staple length greater than 26mm., the minimum length deliverable.

The Havre system of appeal is similar to those of Liverpool and Bremen. There is a board of twelve members, nominated by the syndical chamber from a list proposed by the brokers. These are divided into four committees, which serve in rotation. The appeal committee is at liberty to change the classification made by the arbitrators, but not to change the differences prevailing at the time. The appeal is final and, as in the case of Liverpool and Bremen, the classification has legal force in American courts.

The Milan cotton market has recently set up a system of arbitration and final appeal which has some features entirely new. It has, for example, a paid expert, who represents the American shipper. He is paid by the American Cotton Shippers' Association and virtually selected by the Department of Agriculture. This expert is a member of the appeal committee composed of nine members, which, in addition to the expert, is made up of four men representing the spinners and four representing the agents. The appeal committee for any dispute is normally composed of one agent, one spinner, and the expert. The spinners and agents serve in rotation, but the expert serves on each appeal. The award of the Milan appeal committee also has official recognition in Washington.

The above four markets, together with Manchester and Rotterdam, are the only ones organized to make final settlement in disputes over quality of cotton delivered. Barcelona and Ghent have proposed the organization of similar arbitration bodies, but up to the present time they have not perfected their organizations.

MORE AMERICANS SELLING DIRECT TO EUROPEAN SPINNERS

Before the war it was customary for American shippers to sell their cotton to European merchants through "c.i.f." (cost, insurance, and freight) agents resident in the import market. Very few of them attempted to deal directly with the European spinners. Since the war many of the large American firms have opened direct business dealings with the spinners, especially on the Continent. The sale is made to them either on "c.i.f." or spot terms. Where the business is done for forward delivery, as most of it is, the particular terms of settlement have lost much of their significance, for the Americans can make up their even-running lots for delivery to the spinner before the cotton leaves America. This enables them to avoid accumulating a stock of cotton in a market where it is not wanted. On the other hand, the European merchant buying on the present "c.i.f." contract may be handicapped by the accumulation of stocks of unsalable cotton. Some of the European merchants are meeting this competition by restricting their purchases to specific descriptions and insisting on correct deliveries. The "c.i.f." business, with direct shipment from America to the spinner, is a more economical way of handling the business where the cotton is accurately classed before shipment. The opportunity for this type of business is developing what are known as "c.i.f." merchants and dealers. They buy the cotton on specific grade and staple description, or on type, from the American shipper, on "c.i.f." terms. They deliver the same shipment to the mills on spot terms. This type of business is growing in favor. It would be greatly stimulated if American shippers were careful in filling specific description sales with strictly even-running cotton. The coöperative associations are well organized to do this type of business, and this is one reason why their shipments have been so popular in Europe.

REJECTIONS

The development of this direct business between the American shipper and the European spinner, together with the fact that some shippers have taken advantage of the no rejection

clause in the present "c.i.f." contract to dump undesirable cotton, are forcing a rejection clause in the "c.i.f." contract. Some of the large European and American firms which keep stocks in foreign markets are granting the spinner rejection privileges. Competition will force other firms to do likewise. Such a change in the contract involves more or less reorganization of the export business, but in the long run should tend to put it on a more efficient basis.

FINANCING EXPORTS

The big European cotton consuming countries are now debtor, rather than creditor, nations. The United States has become the great creditor nation. Much of the capital required for financing marketing processes are now furnished by American banks. The easiest part of the cotton business for the Americans to finance has been the movement and holding of the raw cotton. The different laws and customs of each country require more or less different methods of doing it. The more usual way is for the seller to grant a ninety days' sight draft, which he presents to the American bank for discount if the price has been called; or, if not, to deliver the documents for a loan. In either case, the money is loaned and the bank takes over the documents, which it forwards to its own branch or agent in the foreign market to which the cotton is directed, with instruction to have it warehoused on account of the bank. The bank usually holds the paper until maturity. The banker under this plan has a check on the weights and qualities of cotton held, without the necessity of rigid inspection in foreign warehouses. It also has the liability of the shipper to cover a part of the risk.

As a rule American banks do not like to re-finance cotton in Europe. Such paper is not desired because it is not subject to rediscount. Moreover, to do such business successfully it is necessary to have an expert to inspect the cotton as well as the receipts offered. Sometimes such re-financing is done but it is usually through a local bank. Some American cotton merchants are entering extensively into the financing of mill purchases of raw cotton. This type of business is usually done on the basis of a sales note, though in some cases promissory notes and mortgages are used.

SALES BY THE CO-OPERATIVES IN EUROPE

One of the most important developments in cotton marketing since the war has been the rise of the large coöperative cotton marketing associations. They have developed a sales organization which reaches every important cotton market in the world handling American cotton. Their reputation in the markets of Europe for correct deliveries rivals that of the best shippers. Up to the present time their sales in Europe have been made almost entirely to merchants. The policy of the spinners to contract for their cotton in the spring and summer, as against the coöperatives' policy of not even selling the "basis" until the cotton is actually in their warehouses, seems to preclude extensive direct business until a way is found to bridge the gap between these two policies.

LIVERPOOL'S EMPIRE CONTRACT

In September, 1925, the Liverpool futures market began trading in a new futures contract known as the empire contract and popularly referred to as the "all-growths" contract. It has essentially the same base as the American contract, in that it specifies that nothing below the value of low middling American fair staple is tenderable. There is not very much trading in the contract. Because of the number of growths deliverable, it is a cheaper contract than the American. The cotton delivered on any one contract must come from only one country. It was adopted very largely on the insistence of the British Cotton Growing Association, but is, at the same time, a recognition of the growing importance of growths of cotton other than American.

The outstanding fact in the history of cotton marketing since the war has been the increased importance played by Americans and American institutions in the marketing of American cotton in foreign countries, and especially in Europe. The changed financial situation, the activity of the American Government, and the better organization of the American shippers are largely responsible for the changes enumerated. Whether America and Americans will make still further progress in standardization and simplification of cotton marketing practices, and thus shorten the gap and lessen the margin between the cotton grower and the European spinner, will depend largely on our ability to put our best leaders in strategic positions.

BOOK REVIEWS

EDITED BY ROSCOE C. MARTIN

University of Texas

Maxey, Chester Collins. *The Problem of Government*. (New York: 1925, pp. xvii, 497.)

"Too many college textbooks are written by professors in mortal dread of what other professors are going to say and think about them, and accordingly are cast in molds which render them far more useful to professors than to students. I have aspired to write a book for the student alone." . . . Thus the author in his preface. This protective statement might very well be regarded as sufficient reason for not reviewing the book at all, since it evidences a fine disregard of what other professors are going to say and think.

On the other hand the fact that the publishers have sent out copies for review seems to show that they at least are not indifferent as to what other professors may say and think. Moreover, the author himself states that the book was written primarily for use as a college textbook and as he does not expressly or by implication limit this proposed use to his own classes, it is to be presumed that he hopes that others may use it in like manner.

Therefore, while it is quite true that any textbook can hope to meet completely the ideas and needs of only one person, to-wit, the author, it may still be permissible to point out the respects in which the book meets or fails to meet the ideas and needs of at least one other person, to-wit, the reviewer.

We may consider first of all then the objects sought to be attained in this work, as indicated in the prefatory statement, and then proceed to examine the extent to which these objects, whether approved or disapproved by the reviewer, seem to have been attained.

With the author's exposition as to the difficulties presented by the introductory course in political science, there would, it seems, be substantial agreement. Neither the "theory" course with historical and contemporary illustrations, nor the detailed and critical examination of existing governments without the background of any political philosophy or theory has proven entirely satisfactory. The widespread movement, of which the author speaks, to avoid the disadvantages and preserve the advantages of these two methods of approach by a judicious combination of the two, is, therefore, a movement which, whether or not it is so widespread, must appeal to the majority of teachers of the introductory course.

It may be questioned, however, whether "in recent years a great many teachers have discovered that it is possible, by careful selection and condensation, by emphasizing only fundamental and important facts, and by skilfully combining the concrete and the abstract, to cover in a

single course of study all of the essentials both of general and political science and of American government, thus combining intellectual orientation with preparation for citizenship in what has proved to be a very fruitful and popular manner."

The statement quoted abounds in adjectives which throw some serious doubt upon its essential accuracy. "Careful selection and condensation" are extremely difficult accomplishments. "Emphasizing only fundamental and important facts" requires a degree of judgment not frequently encountered. "Skillfully combining the concrete and the abstract" demands an artist as well as a technician. How then can a great many teachers have discovered that these difficult feats are possible? The truth is that a great many have wished it were possible, and a number have tried it, but the reviewer has still to meet one who really believes that he does cover in a single course of study *all the essentials* both of general political science and of American government.

Apparently, however, the author feels that he has accomplished this elusive desideratum, and it is of course in the light of that claim that the book should be judged.

Of actual text, that is excluding bibliography, title and blank pages for each of the six parts into which the book is divided, and index, there are some 456 pages. Merely from the point of view of adequacy of treatment and with no reference to the problem of selection, it would seem clear that within the covers of this book there cannot possibly be covered all of the essentials both of general political science and American government, even though one were to cut his concept of "essentials" to the bone. Nor is that all, for this limited treatment covers as well various concepts of sociology and economics and discussions of war and international peace.

It is true that the author expressly disclaims for the book the character of an adequate introduction to the fields of economics and sociology, and the reviewer feels neither capacity nor inclination to evaluate the treatment of those phases of the book. The point here is that however adequate or inadequate that treatment may be from the point of view of the economist or sociologist it cuts materially into the space available for the treatment of the essentials of general political science and of American government.

It would be quite possible for the reviewer to take up seriatim the various processes enumerated by the author in his preface as being involved in the preparation of a satisfactory introductory course and which so many teachers have discovered to be possible. This, however, would after all amount only to the contrast between the reviewer's "careful selection and condensation," "emphasis of fundamental facts," "skillful combination of the concrete and the abstract" and the processes of the author. That would be of no interest to anyone outside of the two persons concerned, for the reviewer does not claim that he has found these processes so simple even after many years of experimenting in the field.

Measured from the point of view of the attainment of the object described, the work does not, in the reviewer's opinion, attain success.

Looked at merely as one person's effort in that direction, the book is interesting and may prove helpful in the ultimate attainment of that object.

Nor would it serve any useful purpose to pick out minor errors for discussion, or to comment on general style. A certain cock-sureness runs through the discussion of mooted points and an attempt at cleverness which does not always succeed. More serious perhaps from the point of view of the reception which will be accorded the book, though not really bound up with its intrinsic merits or defects, is the somewhat supercilious attitude of the author toward the fellow members of his professional field. This attitude is apparent throughout the preface and is exemplified also at various points in the text, viz., the reference to starting "a furious war of words among professors and savants" (p. 20); the description (on p. 35) of what "learned doctors and professors have chosen to call the state" whereas the author on the next page characterizes his own description as "a common-sense definition of the state," etc.

After all, the author belongs to this craft of "doctors and professors," at least he so describes himself on the title page of the book, "PH.D." and all, and is one of the younger and newer ones at that.

H. G. JAMES.

University of Nebraska.

Nock, Albert Jay. *Jefferson*. (New York: Harcourt Brace & Co., 1926, pp. 340.)

In this book Mr. Nock has depicted Jefferson the man rather than Jefferson the statesman and public official. True, he has by no means lost sight of the great Virginian's public services, but throughout the entire eight chapters of the volume it is the personal, human Jefferson that is always before the reader. Moreover, the work has been admirably done. Regardless of whether Jefferson is described as a gangling young student at Williamsburg, or as lawyer, farmer, scientist, scholar, traveler, statesman, or diplomat, the picture is as vivid and clear-cut as though painted upon canvas. It is a picture of a man of great and versatile ability, and keen, inquisitive mind, deeply interested in almost everything with which he came in contact. In fact one is led to view with surprise, amounting almost to bewilderment, the numerous interests of Jefferson throughout his life and the rapid workings of his many sided mind.

The reader also gets some excellent pictures of many public men of Jefferson's time, especially Washington, Hamilton, and John Adams, as well as vivid descriptions of the conditions of life in the United States at that time.

That many historians will disagree with some of Mr. Nock's conclusions is of course obvious. His statement on page 220 that: "Jefferson was a born Vice-President," or on page 222 that "The figure of Adams is perhaps the most congenial—one may say perhaps the most lovable of any made on the page of history by an American of his period" are examples of opinions that may well be open to question. It would

seem too that some of the chapter headings might be improved, particularly chapters III and IV called "1784-1789" and "1784-1789 continued." Also Mr. Nock sometimes uses French, German or Greek phrases when it would seem that there is little justification for them and that English would do quite as well or better.

Yet these things are very minor matters and do not detract from a book which is scholarly, well written, and of intense interest. Naturally the volume will perhaps appeal more to the historical scholar than to the casual reader, yet any moderately well informed person may read it with great interest and profit.

The volume is considerably enriched by a frontispiece portrait of Jefferson by Gilbert Stuart, by a picture of the Jefferson bust by R. I. Aitken, and by fac-simile copies of a chart of the state of the Washington vegetable market from 1800-1809 in Jefferson's handwriting, and a page taken from one of his account books.

EDWARD EVERETT DALE.

University of Oklahoma.

Mims, Edwin. *The Advancing South*. (New York: Doubleday, Page & Co., 1926, pp. xviii, 319.)

As the author himself conceives it, the purpose of this volume is "to reveal and interpret the individuals, institutions, and organizations that are now carrying on a veritable war of liberation in the Southern States" (p. vii). "I have purposely avoided," he continues by way of outlining his procedure, "the abstract discussion of Southern problems and have rather aimed at the concrete representation of personalities and events. In suggesting the agricultural and industrial development I have been concerned, not with statistics or summaries, but with men who have applied intelligence and science to the business in hand and who at the same time have seen the relation of such progress to social and intellectual progress. I have omitted the mere facts of educational progress—the increases in buildings, appropriations, endowments—and have emphasized the results of such progress as seen in straight thinking, in true scholarship, and in freedom of investigation. The growth of religious organizations is not so important as the conflict between fundamentalism and the liberal interpretation of religion in the light of modern science and criticism. Others have written about Southern literature as a chapter in the literary history of America. . . ; I have chosen to consider literature as an interpretation of social life and as a factor in creative thinking. If I have had little to say of the race problem, it is because much has been written by others; I have sought only to show its effect on conservative and liberal minds and to indicate the contributions that certain groups of men are making to what is becoming more and more a national problem. Without attempting to solve the problem presented by the ever stubborn fact of the Solid South in national politics, I have indicated a group of progressive editors who are showing increasing independence and courage in combating the evils of sectionalism and machine politics" (pp. ix-x). In short, the author

sees the South passing through a profound renaissance, and he is concerned to present his vision by means of snap-shot pictures of the agencies functioning in the awakening.

He has succeeded in putting before us a very vivid story—a story heartening to those of the South who are laboring for, and believe in, her ultimate triumph in things spiritual, and enlightening to those of other sections (if any such there be) who are still prone to look upon this section as “The Sahara of the Bozart.” But the author is no blind optimist. The intense faith which he has in the reality of the South’s progress to better things does not in the least render him incapable of sensing the numerous and rather formidable difficulties that yet beset her path; and his temper in dealing with those forces that seem to him most harmful and refractory is admirable. Within its limits, the book is quite convincing as regards its main thesis.

But unfortunately the limitations of the book are rather marked. One acquainted with the actual situation from the inside is hardly convinced that the book lives up to its title; on the contrary, he is sure it does not do so. The South of which the author is primarily thinking is the Piedmont section and its vicinity; and this looms so large in his esteem that it tends at times to blur his perspective. He is too much inclined to speak as if the forces making for Southern progress center exclusively around Chappel Hill and Nashville, and this prejudice leads him at times to make some rather sweeping assertions about matters of fact that are at least debatable. The circumscription of the field is perhaps made inevitable by the author’s method of treatment, and the account doubtless gains in vividness because of the limitation of its scope. But its scope is limited: there are broad reaches of the South beyond the confines of Nashville, Chappel Hill, and the Piedmont section, and these, apparently, may claim some recognition in the story of the “Advancing South”—unless, indeed, as the reader at times feels the author is inclined to think, there are in them no agencies worth mentioning making for enlightenment. Of course, one cannot expect an author to say everything in one book; when a complex movement is under consideration, selection and emphasis are inescapable. If one is to say anything, one must say *something*. But, after all, there is a vast difference between telling part of a story, explicitly recognizing meanwhile that it is only a part, and telling part as if it were the whole.

Despite its limitations, however, the book deserves to be, and doubtless will be, widely read, particularly in the South. It is to be hoped that the progressive agencies which the book so well portrays will be augmented and made even more virile by its appearance.

G. WATTS CUNNINGHAM.

University of Texas.

Adams, James Truslow. *New England in the Republic, 1776-1850*. (Boston: Little, Brown & Co., 1926.)

The publication of Adams’ *The Founding of New England* was a great event in American historical writing. The scholarly world recognized at once that this was the work of a master and no one doubted the justice

of the awarding of the Pulitzer prize to the author. The volume was followed by *Revolutionary New England, 1691-1776* which, though it did not reach as high a plane as the first book, was recognized as an outstanding work. The third volume is intended to carry the history of New England to 1850.

In his preface Adams says, "In a single volume covering the period of this one it would be impossible to give a continuous and intelligible account of the local political life of six states, and it has not been considered essential to attempt it. On the other hand, purely national political events have been ruled out by the fact that this is the history of a section and not of a nation.

"We are to a greater extent than in the preceding volumes, concerned with the life of the people as expressed in forms other than political. The main theme of the book may be considered to be the continued struggle of the common man to realize the doctrines of the Revolution in the life of the community. We discuss politics in so far as he attempted to realize his ideals in his political life, but the movement broadened steadily to embrace many other spheres of life as well. Moreover, although our period includes two wars, we have little to do with purely military events, as they not only belong rather to national history but also took place—for the most part—outside of the borders of our section."

This then is the point of view of the author. He set himself the task of writing the history of a section from 1776 to 1850. This is the strength and the weakness of the book. As long as Adams is dealing with things New England up to 1815 his vision is usually clear. He has shown us the political struggles, the smug complacency of the wise, the good and the rich, who at times were widely jostled and often unhorsed by the masses, and the changing life of a people who were passing from an agricultural Economy to an industrial urban life.

Adams did not think it necessary to discuss with fullness the military events of the Revolution or of the War of 1812. While he was probably wise in his decision not to go into detail, he carried this to such an extreme that the reader is left with wrong impressions of the struggles. His account of the American Revolution is superficial, and in that of the War of 1812 he failed to show the importance of the British blockade and of the conquest of northern Maine. For a man who apparently enjoys kicking the crowns from the heads of New England worthies, crowns which the older generation of historians handed out almost as liberally as the kaiser awarded iron crosses, it is strange that Adams failed to mention the fact that the people north of the Penobscot took the oath of allegiance to Great Britain.

In the portrayal of class struggles, in the play of economic forces as the bases of political action, and in the analysis of the motives of the ruling classes, Adams is a master historian. With unerring judgment backed by a wealth of material, he depicts the rapidly changing New England, and does it so convincingly and so brilliantly, that we reach the year 1815 feeling that, with the exception of his meager accounts

of the wars and his somewhat limited knowledge of national history, the book is all that could be desired.

Three hundred well-written pages covered forty years. The history of thirty-five years was still to be told, and this the author attempted to do in a little over a hundred pages. It was an impossible task. Instead of a history of those thirty-five years, we find a series of interesting essays on economic and social topics, with here and there a few political episodes thrown in. But the unfolding of New England politics, the growth of Jacksonian democracy, the rise of the New England Whigs, the struggles between church and state, the evolution of higher education, the spread of Methodism, the development of banking, and many other vital subjects either receive no attention or are given such scant treatment that the reader is left groping and unsatisfied. Mr. Adams, great historian that he is, has been guilty of ending with an anti-climax.

THOMAS MAITLAND MARSHALL.

Washington University.

Briggs. *The Doctrine of Continuous Voyage*. (Baltimore: Johns Hopkins University Studies in Historical and Political Science, 1926, pp. x, 226.)

Dr. Briggs' study deals with the origin and development of the doctrine of continuous voyage down through the World War. It is of current interest especially in view of the reported discussions concerning American claims against Great Britain arising from British belligerent practices during the World War.

The author presents no very new material in regard to the origin of the doctrine, but emphasizes the fact—sometimes overlooked—that “continuous voyage” was evolved, not as a rule of international law, but as a municipal law rule of a belligerent to defeat American devices for evading the Rule of the War of 1756 (the latter being itself a municipal rule and not a part of international law). Continuous voyage was applied to contraband as early as 1761 and was linked with the rules of contraband in cases decided early in the nineteenth century. It is pointed out that several of the commonly-cited Civil War cases on continuous voyage are somewhat confused, decisions frequently being based on several different grounds. An entire chapter is given to the famous *Springbok* decision, and to the criticism brought against it. The author regards the seizure and condemnation in this case as “illegal” (p. 216).

The doctrine of continuous voyage was invoked in few instances between the Civil War period and the World War. It was given international recognition through the conclusion embodied in the Declaration of London, accepting the rule as applied to absolute contraband. During the World War the British Government extended its application to conditional contraband and to a new kind of “blockade.” The object in the establishment of the latter was not merely to apply the established rules of international law, but to “cut off by effective means the sea-borne commerce of the enemy” (p. 129). The policy was defended

on the ground of necessary adaptation of old rules to new conditions and on the ground of retaliation.

In the opinion of the reviewer, the ninth and tenth chapters, dealing with the effect of continuous voyage on prize law, new methods of procedure and tests of continuous voyage, are the most valuable of the book. The chapter dealing with the effect of the doctrine on prize law points out the following departures from international law as of 1914: (1) resort to "speculative captures," i.e., seizures of vessels against which at the time of first seizure there was no particle of evidence; (2) admission of extraneous evidence against the vessels improperly seized; (3) shifting of the burden of proof to owners of seized goods, who were placed in the position of having to prove that municipally-enacted *presumptions* of ultimate enemy destination were invalid.

An analysis of decisions in the so-called "statistical" cases reveals that condemnations were based on "inferences and presumptions" in such cases as the *Kim*. It "cannot be said," however, "that any one presumption of ultimate enemy destination, when a vessel was seized on a voyage between two neutral ports, was regarded as being of itself sufficient presumption on which to base condemnation." Partial presumptions were combined with others to warrant condemnation. But, contrary to previous rules governing prize court procedure, "evidence of all kinds and from all sources was admitted" (p. 212). On another point, the author offers his conclusion that "the charges of the United States that Great Britain acted in bad faith in treating as a presumption of ultimate enemy destination an increase of imports to which she herself partly contributed seem borne out by the facts" (p. 203n).

After his review of the way in which the doctrine of continuous voyage has been extended at the expense of neutral rights, Dr. Briggs sees "no solution short of a rule of international law forbidding neutrals to trade at all with any belligerent"—a solution which he admits would be dependent upon the development of a sense of "mutual obligation" to refrain from trading with belligerents. He does not suggest a possible solution which would seem to be more in keeping with the dignity of neutral states and the upholding of recognized rules—the use of convoys for neutral merchantmen engaged in commerce not subject to penalties according to international law.

While recognizing the value of the contribution which this study represents, it is possible to criticize certain parts of Dr. Briggs' work. He has sometimes been content to cite secondary sources when the official text must have been readily accessible (pp. 42n, 78n, 180n). While the index is so brief as to be of little service, the usefulness of the book is increased by the inclusion of a table of cases cited, numbering approximately two hundred.

ROBERT R. WILSON.

Duke University.

Smith, Thomas Vernor. *The Democratic Way of Life*. (The University of Chicago Press, 1926, pp. ix, 211.)

This exposition of democratic ideals, the author confesses, is meant to season daily duties with the joy of social vision. It is not a handbook on local government or a treatise on parliamentary procedure. In his view democracy is a doctrine of both means and ends, but he is convinced that democracy has beyond all ideas of governmental machinery constantly meant a way of life. It is important that men govern themselves, but primarily so because this troublesome procedure is the only known guaranty that they can seek their own ends. It is then necessary to call attention to the way of life that as an ethical ideal has inspired so many people. This book is then a contribution, and a substantial one, to the enlarging conception of what the good life is and how it may be achieved in democracy. Professor Smith wishes to make clear what is the abiding real content of those rather vague symbols that long ago democracy set up to constitute its trinity of aims—liberty, equality, fraternity.

Democracy as fraternity, confessedly in large part an ideal, is the major part of the end that moved men to institute democratic government as a means. Here, then, is the first objective, ethically as well as historically of the democratic way of life—fraternity. Democracy as liberty is next discussed with insight into the complex world the average man inhabits, and it is seen as one of the necessary ideals of the good life in the good society. Liberty is intrinsically good, its denial is always bad, and limitation can be justified only in the name of the equal right of other men to be free. Liberty is necessary for a worthy brotherhood, so equality is the only guaranty of liberty for common men. It is a matter of utmost importance that the conditions of living the good life obtain for the average man in this machine age, in fact "on this question rests in large measure the validity of democratic ideals for concrete living today." The basis of theory for the last two chapters is then given by Mr. Smith: Democracy is fraternity, liberty, equality. Fraternity is the great spiritual objective of the democratic way of life; liberty is the indispensable means to a meaningful brotherhood; and equality is but a reminder that if liberty is good for the few, it is also good for all. Thus is fraternity ennobled through liberty, and liberty generalized through equality.

The first three chapters of general discussion of democracy is followed by two chapters dealing with democracy and the day's work and democratic leadership. The good life in democracy must be built upon a life of work, and work in democracy must be humanized. That the author declares to be the supreme moral task of the hour—the humanization of work. The ethics of democracy is not found in all of us becoming little capitalists, rather it is in the fact that we have found a job that we can build a good life around. This chapter, the present reviewer admits, is the least satisfactory in this study, because it does seem to possess very little reality. There is a strain about it.

Professor Smith's best writing, and his most effective thought, is in his final chapter on democratic leadership. It is a fresh, pointed statement of the problem that is the crucial test, as William James said, of democracy—leadership. In this chapter the author brilliantly reviews the whole field of discussion; and it is significant that his university has centered attention on this question. The arrival of political democracy, it is said, accompanied and reinforced by science, ought to have changed the conception of leadership, for it is perfectly obvious that leadership in science is of a different mold. But one ceases to wonder when one considers on what absolutistic foundations modern democracy was built. The basis of control was a very narrow one. "Our susceptibility to, and even partiality for, a leadership that rests upon prestige drawn from esoteric sources has thus been of a piece with the other dependence we have placed on vague authoritarianism." Here is the philosophic interpretation of fundamentalism in politics. But democracy must put the supreme emphasis upon knowledge as the basis for democratic leadership. That is the way of life for democracy. "Democracy must be democratically arrived at"; and the way is the method of facts and knowledge. The aristocratic ideal of leadership based upon prestige and flowering toward impartiality must be denied. Leadership based upon special knowledge and flowering toward control of facts for human ends is the democratic ideal. The latter means practice in living rather than preparation for life. It is an ethical and educational ideal that breaks the age-old monopoly of leadership and by so doing distributes far and wide the seeds of individuality.

This is a study that will no doubt confuse those who look upon the democratic way of life as a hopeless method for the modern state. They will see in it only a subjective study, an exercise in vague and meaningless words. But are we not governed by words?

CHARLES W. PIPKIN.

Louisiana State University.

Reed, Thomas H., and Webbink, Paul. *Documents Illustrative of American Municipal Government*. (New York: The Century Co., 1926, pp. xiii, 609.)

This is not a book of readings in American municipal government in the ordinary sense but is primarily a source book which attempts to illustrate the problems of municipal government with selections from the charters, laws, cases, and official reports. However, in some cases the word "document" is used in a broad sense, as in the case of the inclusion of the extract from the debates of the Pennsylvania Constitutional Convention, 1873 (p. 225); the remarks of Mr. Murphy in the New York Constitutional Convention, 1846 (p. 232); and the remarks of Mr. Miles and Mr. Birney in the Michigan Constitutional Convention, 1867 (p. 233).

The contents of the volume are principally from the United States but a few references to foreign experience are included. The documents are not reprinted in their entirety in most cases but only that part relevant to the problem illustrated by the selection. The readings

are in each case preceded by a short explanatory note and citation to the source.

The book is divided into thirteen parts and contains 111 "documents." The first two parts of the book, 131 pages, deal primarily with the historical development of municipal government while the other eleven parts illustrate the methods which have been used and are being used to cope with the complex problems of municipal government today.

In a book of documents the question of proper selection and balance arises. While this volume seems well done from this point of view, some question might be raised as to whether too much space (130 pages) has been given to the historical development of cities and not enough to some of the actual governmental problems of today, as in the case of Part XI of the book on the Initiative, Referendum, and Recall, to which only seven pages are devoted. More space is given to the first section of Part I of the book which is the First Report of the Commissioners Appointed to Inquire into the Municipal Corporations in England and Wales, 1835 (27 pages), than to Part IV, The Weak-Mayor Plan of Government (24 pages); Part VI, Municipal Reform Organizations (21 pages); Part X, Proportional Representation (21 pages); or Part XI, Initiative, Referendum, and Recall (7 pages). Likewise the question arises as to whether there are not some governmental problems on which documents might more profitably have been included than the material that has been selected in Part VI which deals with Municipal Reform Organizations. But these are questions upon which no two students of municipal government would entirely agree and the selection seems in general to be quite satisfactory.

The book will be of great value to teachers of municipal government since it will make available for student use illustrative source material in this field. The scope of the material is such as to make the book well adapted for use with any standard work on municipal government.

C. M. KNEIER.

University of Texas.

Edie, Lionel D. *Economics: Principles and Problems*. (New York: Thomas Y. Crowell Co., 1926, pp. xx, 799.)

The purpose of this interesting volume is to provide an introduction to economics for university students and general readers. It proposes to combine a statement of orthodox economic principles and modern economic development. The book is a departure in the treatment of economics which seems to be in the right direction, in that the subject is treated as a science dealing with every-day business problems. Much valuable statistical data has been included. As a whole the reviewer wishes to congratulate the author on the fine piece of work he has done. Yet, there are many points in the book that should be called into question.

The factors of production are grouped as basic and auxiliary. Under the former land, labor, and capital are included. Under the latter management, government, and money are found. Under a division of that kind it is to be expected that each subject relating to each division would be treated in the chapters on distribution, but that is not the

case in connection with government and money.¹ Management in the chapter on production is separated from ownership and paid a salary.² From that it would appear that it could not be treated in any way other than a wage, but later we find the manager receiving profits. Later in the book we find the factors in production given as land, labor, capital, and management.³

In the theory of distribution Profits is placed first. That seems illogical to the reviewer in view of the fact that profits is the residual share. There are two causes given for pure profits: "First, the scarcity of the ability to shoulder risk successfully; second, the favorable outcome of chance and fortuitous change."⁴ It is recognized by the author that the first has to be classed under wages of management (but that earlier in the book was made a definite salary). On that basis profits are due not to risk but in spite of risk. In last analysis pure profit is fortuitous.⁵ But the question remains, who is to receive the profit? In this work it is given to the entrepreneur who organizes the business. That is well enough but why is he not given a place in the factors of production? There the management is hired and paid a definite salary. A little later in the same chapter the entrepreneur is introduced and defined but his proper relation to business is scantily treated in production and distribution.

In this work interest is governed by the supply and demand of capital.⁶ Gross interest is made up of three factors, pure interest, a risk payment, and an expense factor.⁷ Pure interest for Professor Edie is "merely and strictly a reward for saving."⁸ That is applicable to the supply side. But if interest is a reward for saving, it seems legitimate to ask why the supply of capital is determined not by interest rates but by other causes—according to the author by volume of production, profits, and habits of thrift.⁹

Finally, the book is marked by an absence of graphic analization of concepts. The diagrams and charts that are used have to do only with statistical material. Our diagramatic teaching should certainly be improved but the reviewer doubts if it is wise to discard the diagrams altogether just because they are not the most satisfactory.

JAMES B. TRANT.

University of Texas.

¹Edie., pp. 64-65.

²Ibid., p. 65

³Ibid., p. 363.

⁴Ibid., p. 202.

⁵Ibid., p. 201.

⁶Ibid., p. 253.

⁷Ibid., p. 256.

⁸Ibid., p. 256.

⁹Ibid., p. 274

Mearns, Eliot G., and Tobriner, Mathew O., *Principles and Practices of Coöperative Marketing*. (New York: Ginn & Co., 1926.)

I. METHOD

The method used in writing the book, *Principles and Practices of Coöperative Marketing*, insures its position as one of the outstanding works of the field. The authors give the following account of their method:¹

The method adopted by the authors has been, first of all to place agricultural coöperation in its natural setting; therefore the social aspects, the historical narrative, and the international phases not only have been included but also have been stressed throughout the book. The authors believe that this broad and orderly approach is necessary in order that the reader may grasp the sweep and spirit of the movement. Secondly, the actual practices of foreign and domestic coöperatives have been investigated and analyzed, both to afford information per se and to provide suitable basis for deductions. As the reader will learn, coöperative marketing has developed with little regard to pure theory or to established principles; as a science of practices, therefore, the subject should be studied from the practical side. Thirdly, the authors' statement of principles—commonly referred to as fundamentals or essentials—constitutes the present knowledge relative to the joint sale of agricultural products. These principles are not static in detail, although fairly well established in general application. Naturally, the wide difference between commodities, localities, and people make it impossible to set compass or anchor for the simple reason that there exist no two identical farmers' crafts. The actual experiences of coöperatives are valuable for historical record even though, for obvious reasons, changes are certain to occur from time to time. Practices and principles alike are based upon case study.

The source materials are primarily the by-laws, contracts, house organs, publicity, and annual reports kindly furnished to the authors by several hundred coöperative associations.

The practices of both foreign and domestic coöperatives are covered in almost every conceivable detail. With such a wide range of practices to study, it goes without saying that any deductions of principles would have more weight than such principles set up on the basis of "pure theory."

II. REVIEW OF CONTENT

A. Part One—General Introduction

In this section of the book the authors review the importance of coöperative marketing, set forth the bases (or purposes) on which coöperative marketing rests, and call attention to certain conditions that are prerequisites for success.

¹Preface, page vi.

The possible purposes or objectives are listed as: (1) a larger percentage of the consumer's dollar for the grower, (2) the assurance of a steady, regular trade outlet, (3) an improvement of the grower's bargaining position, both as buyer and as seller, and (4) crops and live stock profitable enough to maintain or enhance land values, which values are in turn governed by the present and prospective prices of the products raised thereon.² Many associations have been organized without specific purpose and have come to failure. The authors place much stress on the necessity of having specific aims. Likewise it is important that the objects be possible of attainment by means of coöperative marketing. Coöperative marketing is not an "open sesame" for the solution of any and all the ills of farming. One of the chief handicaps to the movement, as is pointed out, is the fact that the members expect too much.

The objective, no matter how worthy, is apt to fail unless there are certain conditions present. Such conditions are as follows: (1) an impelling, legitimate purpose, (2) a sufficient volume of business, (3) fair competition, (4) suitable organization, (5) adequate management, (6) loyalty, and (7) concentration upon the main objective.³

B. Part Two—Organization

With a well defined purpose and with conditions prerequisite to successful operation present, the next problem is that of organization. The authors have reduced the innumerable variations to five types. They consist of the following:

1. The independent local association.
2. The federated exchange formed by local associations.
3. The federated exchange formed simultaneously with locals.
4. The centralized exchange without local units.
5. The centralized exchange with local units.⁴

In their discussion of the different phases of organization, the authors point out that there is no one best organization. There is no one way to go about the process of organization. "But it must not be assumed that to organize the growers quickly into central associations is better than to organize them slowly into locals. Each system has its advantages: the former offers a reduction in the time necessary for organizing, and the latter is a real incentive toward a true spirit of coöperation."⁵ "Therefore it is hardly true that the centralized association always fails and the federated always succeeds, or that the centralized association is more autocratic than the federated association."⁶ Based on their study of many cases the authors point out numerous instances of success where the coöperatives were organized through the agency of high pressure salesmanship. These successes are just as marked as those

²Page 6.

³Page 31.

⁴Page 66.

⁵Page 94.

⁶Page 74.

that come through the gradual growth of the movement among the growers.

C. Part Three—Business Practices

This section takes up the work of the association in carrying out their various objectives. Some are concerned with only a few or even one of the possible objectives. Others take as their objective the performance of all of the market functions. The main headings of this section are the market functions. The practices of coöperatives in dealing with grading, transportation, storage, selling, etc., are shown. The cases of marked success are analyzed and the reasons for the success pointed out. In like manner the cases of failure are taken up. By compiling figures general tendencies are also shown. Here again it will be noted that there is no attempt to pick out any "correct practices." Too many different ways of handling the same situation have proven successful.

D. Part Four—Regional Characteristics

This section of the book is confined to a description of coöperative associations abroad and in the United States. For each region the authors cover the following:

1. Character of the country and necessity for coöperation.
2. Kinds of associations.
3. Organization.
4. Business practices.
5. Results obtained.

E. Part Five—Appraisal and Summary

The authors first attempt to lay down criteria of Business Efficiency. What shall be the standards to use in judging the success of coöperatives? On page 470 the authors have set up this standard: "It is probable that most persons make the contrast between the functioning coöperatives and the private mercantile firms at the present time. This is the best basis, for the reason that over a period of years an established coöperative should profit by its own failures and successes. Similarly, future experience should cause greater successes in the long run, so this yardstick would be unfair to the present organization; on the other hand, if one should attempt to appraise an immediate situation on the assumption that no coöperative marketing had been practiced, in most cases too many 'ifs' and 'buts' would result to warrant any deductions. Therefore the question takes the form of the relative merits of coöperatives versus non-coöperatives now."

Their idea seems to be correct that since at present coöperative associations are in competition with private mercantile firms, it is fair to estimate their success in such competition. Taking up the functions of marketing they give a discussion of the work that coöperatives can do.

However, they do fail to hold up their criterion of business success, i.e., success as compared with private firms. Can coöperatives perform the various functions better or not, and why?

The criterion on which the member judges the success of his organization is given on page 494: "Irrespective of the greater possible profitableness of the home market or of the probable savings in more direct dealings, unless the grower receives a bigger reward for his labors, as expressed in money received for definite services, or unless he has bettered his position in some other way, his coöperative organization is a futile organization to him."

The last chapter deals with national problems of development. The movement is discussed not as one affecting a particular class but as one affecting our whole nation. The movement is gaining so much ground that it has become a part of our economic organization. Following are some of the bigger questions taken up:

1. The legal status of coöperatives.
2. Possible changes in business economics.
3. A coöordinated national policy.
4. A coöordinated international policy.

III. CRITICISM

Taken as a whole the book is "long on practice and short on theory." Almost every conceivable business practice has been studied with a view of getting the data from operating coöperatives. The many ways of handling any particular problem are well presented. Anyone interested in the movement, whether student, organizer, member, or official, can find a full discussion of what coöperatives are doing along almost any line.

As to the best way, however, except in a few cases, the authors do not care to commit themselves. Success has attended too many different ways of handling the same situation to allow dogmatic statements. This of necessity must have been the result in writing on such a subject. The movement is too new to enable one to decide on best methods. The authors have done a memorable work in collecting the facts. It is on the basis of this work that the book will win the approval of those interested in coöperative marketing.

CARL A. REHM.

University of Texas.

Siegfried, Andre. *Post-War Britain*. (New York: E. P. Dutton & Co., pp. 314.)

Those who wish a guide to the changes in British politics and economic conditions over the past decade cannot do better than to turn this book. M. Siegfried is no stranger to the British Empire. His *Race Question in Canada* is and will long remain the standard work upon the subject. This book shows the same intimate knowledge of factual detail and the same brilliance of psychological insight. It is the work of a man who

likes and respects his subject, who understands it, and who has the gift of clear and forceful presentation. It is, by all odds, the most illuminating recent interpretation of England.

M. Siegfried presents the changes in political alignments and in economic conditions since the beginning of the century, emphasizing the period since 1914. That in itself is no mean task, but of even greater interest to the outsider is his portrayal of the conflict of interest since the war between the exporting and the sheltered trades, and of the dominance of the commercial and financial interests centering in the City over the Industrialists. His discussions of the Cabinet Secretariat and of recent developments in Imperial relations are little marvels of compactness, while those of the Established Church, of the Non-conformist tradition, of Manchester Liberalism, and of the reaction from the Imperialism of the nineties are invaluable. M. Siegfried, in the role of the observant foreigner, has set forth those modes of feeling which the native writer so often neglects because they are so familiar, but, without which, much of the country's history is unintelligible.

Two criticisms may be added. England is far from being headed toward an inevitable decline, as M. Siegfried seems to suggest. The long, slow agony of unemployment and uncertainty through which she is now passing is explainable on other grounds than that of economic exhaustion. M. Siegfried is also inclined to overdraw the English character. These are, however, comparatively minor blemishes. Taken as a whole, the book is to be recommended unreservedly.

The translation is well done, though inevitably it lacks something of the racy quality of the original. The book is beautifully printed and bound. It is a joy to handle.

JOHN L. McDOUGALL.

University of Toronto.

Marin, Louis. *Questionnaire de'Ethnographic*. (Paris: Maisonneuve Frères, 3 Rue du Sabot, 1925.)

There is a good number of works of this kind already. This new one is more complete than any other I know of and I think it will make an excellent guide to use in any kind of ethnographic inquiry. It would be equally careful for a reclassification of the thousands of facts we now have on past cultures and it could also serve as a basis for a bibliography of ethnography. This new book does not attempt to give anything like a synthesis of this branch of knowledge, nor does it try to find the causes of the development of culture or to account for its diffusion.

The whole subject is divided by Marin into Material, Mental, and Social life, and the classification he uses covers not less than 129 pages. This new work is one more proof of Marin's unceasing activity in the field of ethnography.

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A recent monograph from The Johns Hopkins Press is Dr. Paul R. Fossum's *The Agrarian Movement in North Dakota*. While the title might lead one to expect a chronicle of the movements comprising the "Agrarian Crusade" of the last quarter of the last century in the State of North Dakota, the author as a matter of fact devotes no more than an introductory chapter to those movements. Instead he is interested primarily in more recent problems. His investigations carry him back no further than 1890, and they involve a consideration of movements which have but very recently come to an end, and to which there attaches something of current interest. The subject, of course, is one over which the average student cannot grow enthusiastic. Nevertheless the investigation was well worth making, and the result is a contribution to be welcomed by those interested in agricultural economics. The chapters on the Coöperative Elevator Movement and the Non-Partisan League are of particular interest, and several tables which are included in the appendices are worthy of special note. It is evident that the author has been at some pains to make the analysis complete; and his efforts, as judged by the student of the agrarian movement, past and present, have met with more than ordinary success.

The chief charge which the critic can bring against the work is that it is poorly written. The reader has, of course, grown accustomed to the inevitable typographical errors, and even split infinitives and misplaced commas do not grate as they once did—this by way of saying that the average reader does not pay a great deal of attention to the style and method of expression employed by the author. Nevertheless, grammatical errors commonly repeated grow wearisome after a time, and Dr. Fossum's work has more than its share of these errors. Sentences launched under auspicious circumstances are left to their fate by the author, who deserts them half finished or neglects to re-draft them. Some of these are no sentences at all (pp. 43-44, 108); others are merely awkward (pp. 13, 71, 101); others undergo a change of tense between periods (pp. 45, 105); others yet see a comparison or an alternative hinted at but never clearly stated (pp. 46, footnote, 96); and still others are plainly nonsensical (pp. 80, 84). An illustration or two will serve to substantiate the charges. Refer to page 45 and you find this sentence: "Should he have endeavored to study the phenomena his meagre education was a heavy handicap." In a footnote on the next page there is to be found this statement: "When his children went away to college they either studied Medicine, Law, Latin, or Greek, consequently when they came back to practice, teach or preach, they knew very little more about the marketing system than when they went away." Now, the inference is that "they either studied Medicine, Law, Latin, or Greek," or they did something else; but what they did the author does not say. Perhaps it is to be assumed that most of the readers will have been college students, and that they will therefore be in a position to know what activities engage the attention of those students who do not study. These illustrations unfortunately are not exceptional cases. The book is full of poorly constructed sentences (on page 59 there is a sentence

of 143 words, with only eight commas to interrupt the otherwise even flow of words) and of statements which do not mean what they say or which, in some instances, fail to say anything. It is to be regretted that the reader must be distressed by poor grammar and worse construction in addition to the inevitable errors which creep into any printed work.

Now it becomes necessary to repeat, and perhaps even to insist, that the work is not entirely without merit. From the point of view of material presented, it is a valuable contribution: the data are taken from reliable sources, and the curves and tables are arranged in such a way as to allow the reader instantly to grasp the significance of the figures presented. And these facts serve to make the monograph welcome to those interested in the agrarian movement, even if the method of exposition employed by the author be not entirely forgotten.

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